

Meeting No. 479

MINUTES OF MEETING
THE BOARD OF DIRECTORS OF
THE TENNESSEE VALLEY AUTHORITY RETIREMENT SYSTEM

December 3, 2018

The regular quarterly meeting of the Board of Directors (Board) of the TVA Retirement System (System) was held on Monday, December 3, 2018, at 12:43 p.m., EST, at the TVA Chattanooga Office Complex, MR 1S 419, Chattanooga, Tennessee.

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The following directors were present: Brian M. Child, Chair; Tammy W. Wilson, Vice Chair (via telephone); Michael L. Belcher; Samuel J. DeLay; Christopher L. Hinton; James W. Hovious; and Allen E. Stokes (via telephone). Also present were Patrick D. Brackett, Executive Secretary; William B. Jenkins, Jr., Assistant Secretary; Chris A. Stinnett, Sr. Analyst, Investment & Risk Management; W. Colby Carter, Senior Counsel; and Jeanna Cullins, Partner (via telephone), and Julie Becker, Associate Partner, Aon (governance consultants).

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479-1 Each director was notified in a memorandum dated November 23, 2018, of the regular quarterly meeting to be held on December 3, 2018. A copy of the notice from the Executive Secretary is filed as Exhibit 479-1.

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479-2 (A-6571). The Chair's report included the following:

- The Chair welcomed Michael Belcher as a new Director on the Board.

- Patrick Brackett, the System’s Executive Secretary, recently informed the Board of his plans to retire at the end of September 2019. Pursuant to the TVARS Succession Planning Policy, the Chair formed an Executive Secretary Search Committee with Tammy Wilson as Chair and Michael Belcher and Allen Stokes as members.
- Pursuant to the TVARS Director Election/Selection Policy, the Chair formed a 7th Director Search Committee in order to help facilitate the Board’s process, evaluation, and selection of a new 7th Director from the available candidates, which had been handled by the Election Committee up to this point. This special committee will have Sam DeLay as Chair and Jim Hovious and Chris Hinton as members.
- The Chair designated the following members for the Board’s standing committees for calendar year 2019:

Audit Committee

Christopher L. Hinton, Chair
James W. Hovious
Tammy W. Wilson

Retirement Committee

James W. Hovious, Chair
Michael L. Belcher
[7th Director]

Investment Committee

[Committee of the whole Board]
Tammy W. Wilson, Chair

Election Committee

Michael L. Belcher, Chair
Samuel J. DeLay
Christopher L. Hinton

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479-3 (A-6572). The Executive Secretary’s report included the following:

- The Executive Secretary provided to the Board the proposed quarterly meeting schedule for calendar year 2019.
- The Executive Secretary provided to the Board the System staff’s work plan for fiscal year 2019. A copy of the fiscal year 2019 work plan is filed as Exhibit 479-3.

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479-4 (A-6573). The Senior Counsel informed the Board that given the length of the meeting, the Board’s annual fiduciary and governance education session with Jeanna Cullins,

Partner, and Julie Becker, Associate Partner, of Aon, the Board's governance consultant, will be rescheduled for a date in January.

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479-5 (A-6574). As a part of the Consent Agenda, the Board approved the minutes for the meeting reported below in A-6575, and accepted the reports as of September 30, 2018, listed below in A-6576, A-6577, A-6578, and A-6579.

- A-6575 Meeting No. 478 held September 12, 2018
- A-6576 Treasurer's Report (filed as Exhibit 479-5(a))
- A-6577 Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) (filed as Exhibit 479-5(b))
- A-6578 Report of retirements approved (filed as Exhibit 479-5(c))
- A-6579 Quarterly review for the TVA Savings and Deferral Retirement Plan (401(k) Plan) prepared by Fidelity Investment Institutional Services Company (Fidelity) (filed as Exhibit 479-5(d))

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479-6 (A-6580). The Investment Committee report consisted of the items reported below at A-6581, A-6582, A-6583, A-6584, A-6585, A-6586, A-6587, and A-6588, and of the following items:

- The Board was provided and took note of the quarterly report on investment policy statement non-compliance items. A copy of the report, dated September 30, 2018, is filed as Exhibit 479-6(a).
- The Board was provided and took note of information regarding asset allocation and investment manager asset transfers during the third quarter of 2018. A copy of this information is filed as Exhibit 479-6(b).
- The Board was provided and took note of information on due diligence meetings and conference calls between System staff and investment managers and service providers

for the period September 2018 through November 2018. A copy of the information is filed as Exhibit 479-6(c).

- The Board was provided an update on the funded status of the System through August 2018. A copy of the asset-liability monitor report is filed as Exhibit 479-6(d).
- The Board reviewed and discussed the quarterly 401(k) Plan Discussion Guide from Aon, the System's 401(k) Plan consultant, covering the following: market information, performance of the investment funds in the 401(k) Plan's lineup, stable value fund review and analysis, and a lowest cost vehicle and share class analysis of all investment funds in the lineup. On November 16, 2018, the Investment Committee met with Aon and the System staff to review the quarterly 401(k) Plan Discussion Guide. A copy of the Guide is filed as Exhibit 479-6(e).
- On November 16, 2018, the Investment Committee was provided and discussed with Wilshire and System investment staff information on several investment managers and their portfolios and strategies. A copy of the Investment Manager Product Discussion List is filed as Exhibit 479-6(f).
- Under the System's asset allocation policy, there is a target of 5% for private credit and 10% for private real assets. On November 16, 2018, Wilshire's private market consultants provided the Investment Committee with a private credit and private real assets portfolio update, including an update on the strategic implementation of the portfolio, potential manager recommendations in the pipeline for consideration, and the current composition and performance of the System's private real assets portfolio. A copy of Wilshire's private credit and private real assets portfolio update, including performance of the current portfolio, is filed as Exhibit 479-6(g).
- On November 16, 2018, Wilshire provided the Investment Committee with general asset allocation education information, including a timeline for the asset allocation work Wilshire will perform with the Board in 2019. A copy of Wilshire's asset allocation education information is filed as Exhibit 479-6(h).

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479-7 (A-6581). The System staff reviewed with the Board the performance of Wilshire as the general investment consultant for the System and provided information to the Board on the annual fee under the second year of the five-year agreement with Wilshire for consulting services, which runs from January 1, 2019, to December 31, 2019. A copy of letter from Wilshire to the System regarding the 2019 services and fee is filed as Exhibit 479-7.

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479-8 (A-6582). Under the System's asset allocation policy, there is a target of 5% for private credit and 10% for private real assets. On November 16, 2018, the Investment Committee discussed with the Wilshire Private Markets group the proposal to administer the System's investments in private credit and private real assets through a fund-of-one limited partnership structure with Wilshire having discretionary management and responsibility for administrative functions for annual commitments made by the System to the funds. After discussion and review of the fund-of-one proposal with the System staff and Wilshire, including fund details and performance reporting, and upon the recommendation of the Investment Committee, the Board approved the fund-of-one structure for the System's private credit and private real assets investments on a going-forward basis and authorized the Executive Secretary to negotiate and enter into any legal documents necessary to implement this new investment structure consistent with the proposal. A copy of the presentation by Wilshire Private Markets on the fund-of-one investment structure and services is filed as Exhibit 479-8.

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479-9 (A-6583). On November 16, 2018, the Investment Committee met and discussed with Wilshire's private market consultants, and the System investment staff, additional manager recommendations for the implementation of the System's investment allocation of 5% to private credit, of which direct lending is targeted at 35%. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved Barings LLC (Barings) as an investment manager of the System for direct lending and a \$35 million commitment to the Barings European Loan Fund II (Barings Fund), and authorized the Executive Secretary to take any actions necessary to implement the appointment of Barings and the

investment in the Barings Fund. A copy of a memo from Wilshire to the Board on Barings is filed as Exhibit 479-9.

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479-10 (A-6584). On November 16, 2018, the Investment Committee met and discussed with Wilshire's private market consultants, and the System investment staff, additional manager recommendations for the implementation of the System's investment allocation of 5% to private credit, of which opportunistic credit is targeted at 30%. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved CapitalSpring (CapitalSpring) as an investment manager of the System for opportunistic credit and a \$20 million commitment to the CapitalSpring Adjacent Fund (CapitalSpring Fund), and authorized the Executive Secretary to take any actions necessary to implement the appointment of CapitalSpring and the investment in the CapitalSpring Fund. A copy of a memo from Wilshire to the Board on CapitalSpring is filed as Exhibit 479-10.

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479-11 (A-6585). On November 16, 2018, the Investment Committee met and discussed with Wilshire's private market consultants, and the System investment staff, additional manager recommendations for the implementation of the System's investment allocation of 5% to private credit, of which distressed debt is targeted at 20%. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved GoldenTree Asset Management (GoldenTree) as an investment manager of the System for distressed debt and a \$30 million commitment to the GoldenTree Asset Management Distressed Fund III (GoldenTree Fund), and authorized the Executive Secretary to take any actions necessary to

implement the appointment of GoldenTree and the investment in the GoldenTree Fund. A copy of a memo from Wilshire to the Board on GoldenTree is filed as Exhibit 479-11.

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479-12 (A-6586). On November 16, 2018, the Investment Committee met and discussed with Wilshire's private market consultants, and the System investment staff, additional manager recommendations for the implementation of the System's investment allocation of 10% to private real assets, of which energy is targeted at 30%. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved Cresta Energy Fund Management (Cresta) as an investment manager of the System for energy and a \$10 million commitment to the Cresta Energy Fund I (Cresta Fund), and authorized the Executive Secretary to take any actions necessary to implement the appointment of Cresta and the investment in the Cresta Fund. A copy of a memo from Wilshire to the Board on Cresta is filed as Exhibit 479-12.

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479-13 (A-6587). On November 16, 2018, the Investment Committee met and discussed with Wilshire's private market consultants, and the System investment staff, additional manager recommendations for the implementation of the System's investment allocation of 10% to private real assets, of which energy is targeted at 30%. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved Energy Spectrum Partners (Energy Spectrum) as an investment manager of the System for energy and a \$12.5 million commitment to the Energy Spectrum Partners VIII fund (Energy Spectrum Fund), and authorized the Executive Secretary to take any actions necessary to implement the

appointment of Energy Spectrum and the investment in the Energy Spectrum Fund. A copy of a memo from Wilshire to the Board on Energy Spectrum is filed as Exhibit 479-13.

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479-14 (A-6588). On November 16, 2018, the Investment Committee met and discussed with Wilshire's private market consultants, and the System investment staff, additional manager recommendations for the implementation of the System's investment allocation of 10% to private real assets, of which infrastructure is targeted at 20%. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved EQT Fund Management (EQT) as an investment manager of the System for infrastructure and a \$40 million commitment to the EQT Infrastructure IV fund (EQT Fund), and authorized the Executive Secretary to take any actions necessary to implement the appointment of EQT and the investment in the EQT Fund. A copy of a memo from Wilshire to the Board on EQT is filed as Exhibit 479-14.

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479-15 (A-6589). The Retirement Committee report consisted of the items reported below at A-6590, A-6591, A-6592, A-6593, A-6594, A-6595, and A-6596.

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479-16 (A-6590). The Board approved the calculation of a 2.21% cost-of-living adjustment (COLA) in the monthly pension and supplemental benefits payable to eligible retirees and beneficiaries in accordance with the TVARS Rules and Regulations (TVARS Rules). The COLAs are effective with the January 2019 payments as provided for in sections 6I, 7L and 18C3 of the TVARS Rules. A copy of the COLA calculation is filed as Exhibit 479-16.

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479-17 (A-6591). The Board approved the calculation of the following interest crediting rates for calendar year 2019: (i) a 6% annual interest rate credit to the cash balance accounts of participants hired before January 1, 1996, pursuant to Section 7C3(a) of the TVARS Rules; (ii) a 4.75% annual interest rate credit to the cash balance accounts of participants hired on or after January 1, 1996, pursuant to section 7C3(b)(ii) of the TVARS Rules; and (iii) a 4.75% annual interest rate credit for fixed fund accounts pursuant to Section 17 of the Actuarial Assumptions in the Appendix to the TVARS Rules. A copy of these cash balance and fixed fund annual interest rate calculations is filed as Exhibit 479-17.

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479-18 (A-6592). Following the performance by Mercer of an actuarial analysis of the System's experience for the 5-year period of October 1, 2012, to September 30, 2017, and the approval by the Board at the September 2018 meeting of the actuarial assumptions to be used in the valuation of the System's liability and benefit calculations as of September 30, 2018, Mercer discussed with the Retirement Committee on November 29, 2018, the proposed factor adjustments for benefit calculations and amendments to the Actuarial Assumptions in the Appendix to the TVARS Rules consistent with the mortality assumption changes. Following a discussion with Mercer prior to the meeting, the Board took no action and requested further education around the factor adjustments tied to the mortality assumption changes. A copy of information from Mercer around the proposed factor changes for benefit calculations is filed as Exhibit 479-18.

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479-19 (A-6593). On November 29, 2018, the Retirement Committee met and discussed with System staff the proposed addition to the 401(k) Plan of a Roth in-plan rollover option for

participants beginning April 1, 2019, and the education and communications around Roth accounts and the new rollover option. Upon the recommendation of the Retirement Committee, the Board approved the following amendment to the 401(k) Plan Provisions:

BE IT RESOLVED, Article 7.5 in the Provisions of the Tennessee Valley Authority Savings and Deferral Retirement Plan is amended to add the language underlined as follows:

7.5 Direct Rollover of Certain Distributions

A. This section applies to certain distributions made on or after December 31, 2001. Notwithstanding any article of these provisions to the contrary that would otherwise limit a distributee's election under this section, a distributee may elect at the time and in the manner prescribed by the board to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.

B. The following definitions apply to the terms used in this section:

- (1) An "eligible rollover distribution" is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Code; any hardship distribution; and the portion of any distribution that is not includable in gross income.

A portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includable in gross income. However, such portion may be transferred only to (i) an individual retirement account or annuity described in section 408(a) or (b) of the Code; (ii) for taxable years beginning after December 31, 2001, and before January 1, 2007, to a qualified trust which is part of a defined contribution plan that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includable in gross income and the portion of such distribution which is not so includable; or (iii) for taxable years beginning after December 31, 2006, to a qualified trust or to an annuity contract described in section 403(b) of the Code, if such trust or contract provides for separate accounting for amounts so transferred (including interest thereon), including separately accounting

for the portion of such distribution which includible in gross income and the portion of such distribution which is not so includible.

- (2) An “eligible retirement plan” is an eligible plan under section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency of instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from the Deferral Plan, an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, an annuity contract described in section 403(b) of the Code, or a qualified defined contribution plan described in section 401(a) of the Code that accepts the distributee’s eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.
- (3) A “distributee” includes a participant or former participant. In addition, the participant’s or former participant’s surviving spouse and the participant’s or former participant’s spouse or former spouse who is the alternate payee under a domestic relations order, as set forth in the Appendix, are distributees with regard to the interest of the spouse or former spouse. A distributee also includes the participant’s non-spouse designated beneficiary under Article 12. In the case of a non-spouse beneficiary, the direct rollover may be made only to an individual retirement account or annuity described in section 408(a) or 408(b) of the Code (“IRA”) that is established on behalf of the designated beneficiary and that will be treated as an inherited IRA pursuant to the provisions of section 402(c)(11) of the Code. Also, in this case, the determination of any required minimum distribution under section 401(a)(9) of the Code that is ineligible for rollover shall be made in accordance with Notice 2007-7, Q&A 17 and 18, 2007-5 I.R.B. 395.
- (4) A “direct rollover” is a payment by the Deferral Plan to the eligible retirement plan specified by the distributee.

C. Direct Rollovers of Roth Elective Deferrals

- (1) A direct rollover of a distribution from a Roth Elective Deferral Account will only be made to another Roth elective deferral account under an applicable retirement plan described in section 402A(e)(1) of the Code or to a Roth IRA described in section 408A of the Code, and only to the extent the rollover is permitted under the rules of section 402(c) of the Code.

- (2) The Deferral Plan will accept a rollover contribution to a Roth Elective Deferral Account only if it is a direct rollover from another Roth elective deferral account under an applicable retirement plan described in section 402A(e)(1) and only to the extent the rollover is permitted under the rules of section 402(c) of the Code.
- (3) The Deferral Plan will not provide for a direct rollover for distributions from a participant's Roth Elective Deferral Account if the amount of the distributions that are eligible rollover distributions are reasonably expected to total less than \$200 during a year. In addition, any distribution from a participant's Roth Elective Deferral Account is not taken into account in determining whether distributions from a participant's other accounts are reasonably expected to total less than \$200 during a year. However, eligible rollover distributions from a participant's Roth Elective Deferral Account are taken into account in determining whether the total amount of the participant's account balances under the Deferral Plan exceeds \$1,000 for purposes of mandatory distributions from the Deferral Plan pursuant to Article 7.6.
- (4) The Provisions of the Deferral Plan that allow a participant to elect a direct rollover of only a portion of an eligible rollover distribution but only if the amount rolled over is at least \$500 is applied by treating any amount distributed from the participant's Roth Elective Deferral Account as a separate distribution from any amount distributed from the participant's other accounts in the Deferral Plan, even if the amounts are distributed at the same time.

D. Rollovers from Other Plans. The Deferral Plan will accept participant rollover distributions and/or direct rollovers of distributions made after December 31, 2001 as follows:

- (1) Direct Rollovers. The Deferral Plan will accept a direct rollover of an eligible rollover distribution from: (i) a qualified plan described in section 401(a) or 403(a) of the Code, including after-tax employee contributions; (ii) an annuity contract described in section 403(b) of the Code, excluding after-tax employee contributions; or (iii) an eligible plan under section 457(b) of the Code which is maintained by a state, political subdivision of a state, or agency or instrumentality of a state or political subdivision of a state.
- (2) Participant Rollover Contributions from Other Plans. The Deferral Plan will accept a participant contribution of an eligible rollover distribution from: (i) a qualified plan described in section 401(a) or 403(a) of the Code; (ii) an annuity contract described in section 403(b) of the Code; or (iii) an eligible plan under section 457(b) of the Code which is maintained

by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state.

- (3) Participant Rollover Contributions from IRAs. The Deferral Plan will accept a participant rollover contribution of the portion of a distribution from an individual retirement account or annuity described in section 408(a) or 408(b) of the Code that is eligible to be rolled over and would otherwise be includible in gross income.

E. In-Plan Roth Rollovers. On or after April 1, 2019, the Deferral Plan will accept an in-plan Roth rollover distribution from the vested portion of any of the following Accounts of a participant, retired participant, or spousal beneficiary (including an alternate payee who is a spouse or former spouse) under the Deferral Plan: (i) a Pre-tax Elective Deferral Account; (ii) a Savings Contributions Account; (iii) a Matching Contributions Account; (iv) a Nonelective Contributions Account; and (v) a Transfer Contributions Account (excluding any amounts transferred from the Retirement System in a plan-to-plan transfer pursuant to a participant's election described in Articles 9.5A(7) and 9.5B(5)). Eligible in-plan Roth rollover distributions will be transferred to the participant's Roth Elective Deferral Account, and the Deferral Plan will maintain such records as are necessary for the proper reporting of in-plan Roth rollovers.

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479-20 (A-6594). The following proposal to amend Section 3(2) of the TVARS Rules by adding a new subsection (d) to prohibit any individual to serve as a Board director who is or was a participant in TVA's supplemental executive retirement plan (SERP) was placed on the agenda by Directors Belcher, DeLay, and Hovious for discussion and consideration by the Board:

Section 3(2) of the Rules and Regulations of the TVA Retirement System is amended to delete the language marked through and to add the language underlined as follows:

SECTION 3

3. Administration of the System

2. a. The board shall consist of seven members, three of whom shall be elected by and from the membership of the System, three of whom shall be appointed by TVA, and one of whom shall be a retiree selected by a majority vote of the other six. Except for the members of the initial board who were designated for staggered terms of one, two, and three years, respectively, the term of each director shall be

three years. Each term shall be deemed to expire with the end of the day preceding the respective anniversary date of the establishment of the System, and all appointments and elections except those made to fill vacancies for unexpired terms shall be effective on such anniversary dates; provided however, in the event the three elected directors and the three appointed directors do not select a seventh director by the expiration of the seventh director's term, then the current sitting seventh director (i) shall continue to serve as a member of the board for an additional one (1) year or until such time as the six directors select the seventh director by a majority vote, if earlier, and (ii) during such continuation period, such seventh member shall be restricted from voting on amendments to these Rules and Regulations and the Deferral Plan Provisions, with the exception of any amendments required by IRS rules or related to the tax-qualified status of the System and Deferral Plan. Any vacancy on the board shall be filled by election or appointment, as the case may be, for only the unexpired portion of the predecessor's term.

- b. As the term of each of the three directors elected by the membership expires or when a vacancy among such directors occurs, a successor shall be elected from such nominees as may be put in nomination by a petition subscribed to by not less than twenty-five members. Such election shall be by a majority of votes cast and, if no nominee obtains a majority in the initial balloting, a second vote shall be taken between the two nominees receiving the greatest number of votes in the initial balloting; provided, however, that when there are more than two nominees for a directorship, the board may in its discretion prescribe a form of ballot in which the voting members indicate the order of their preference among the various nominees and, if none of the nominees obtains a majority of first-choice votes among those cast, such order of preference shall be used in determining which of the two nominees receiving the greatest numbers of first-choice votes is elected. Ballots shall be distributed and received in such manner as the board shall determine to assure the integrity of the election. In the event only one person is duly nominated for the directorship to be filed, the board may declare such nominee elected without the necessity of formal balloting by the membership.
- c. An individual is eligible to serve as a director of the board (either elected, appointed, or selected) no more than three full 3-year terms. Any partial term less than 3 years for which an individual has been elected, appointed, or selected under the provisions of this section 3(2) for the unexpired portion of a predecessor's term does not count toward this term limit of three full 3-year terms. Notwithstanding the above, any individual who has already served as a director for three full 3-year terms as of the effective date of this provision will be eligible to continue as a member of the board for the remainder of the director's current 3-year term.
- d. Any individual who is or was a participant in TVA's Supplemental Executive Retirement Plan or any similar non-qualified executive retirement plan

maintained by TVA, will be ineligible to serve as a director of the board (either elected, appointed, or selected).

- e. Other than retirement benefits being received from the System as a retiree, the seventh director retiree, during the term as a member of the board, is prohibited from engaging in any business relationship for remuneration (either monetary or non-monetary) with TVA, any TVA distributor or direct-served customer, and any third-party entity that does or is seeking to do business with TVA, including, but not limited to, contracting, consulting, lobbying, or representation.
- def. Notwithstanding the other provisions of this section 3(2), when a director, elected by and from the membership, ceases to be a member of the System, that individual also ceases to be a director and an election shall be held immediately to replace that director for the unexpired portion of that term except that elected directors whose membership in the System ceases during the last 9 months of their elected term or during the 9 months prior to March 4, 1994, shall remain members of the Board for the remainder of that term unless they withdraw their entire retirement allowance from the System, resign from the Board, or die.
- efg. Notwithstanding the other provisions of this section 3(2), the board may initiate and enforce disciplinary actions against a director for violation of written policies formally adopted by the board, and such discipline may include action up to and including removal of the director from his or her position as a director on the board. A super-majority vote of the board (5 votes) is required for the removal of a director from the board pursuant to disciplinary actions under this subsection.

After discussion, Director DeLay made a motion to amend Section 3(2) as proposed. The motion received a second from Director Belcher. The motion to amend Section 3(2) failed by roll call vote for lack of receiving 4 votes. Directors Belcher, DeLay, and Hovious voted for the motion, and Directors Child, Hinton, and Wilson voted against the motion. Director Stokes was not eligible to vote on the proposed amendment pursuant to Section 3(2)(a) of the TVARS Rules.

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479-21 (A-6595). The following proposal to amend Section 3(2) of the TVARS Rules by adding a new subsection (e) to prohibit the 7th Director retiree from receiving any compensation or remuneration from TVA, any TVA distributor, or any entity doing business with TVA was

placed on the agenda by Directors Belcher, DeLay, and Hovious for discussion and consideration by the Board:

Section 3(2) of the Rules and Regulations of the TVA Retirement System is amended to delete the language marked through and to add the language underlined as follows:

SECTION 3

3. Administration of the System

2. a. The board shall consist of seven members, three of whom shall be elected by and from the membership of the System, three of whom shall be appointed by TVA, and one of whom shall be a retiree selected by a majority vote of the other six. Except for the members of the initial board who were designated for staggered terms of one, two, and three years, respectively, the term of each director shall be three years. Each term shall be deemed to expire with the end of the day preceding the respective anniversary date of the establishment of the System, and all appointments and elections except those made to fill vacancies for unexpired terms shall be effective on such anniversary dates; provided however, in the event the three elected directors and the three appointed directors do not select a seventh director by the expiration of the seventh director's term, then the current sitting seventh director (i) shall continue to serve as a member of the board for an additional one (1) year or until such time as the six directors select the seventh director by a majority vote, if earlier, and (ii) during such continuation period, such seventh member shall be restricted from voting on amendments to these Rules and Regulations and the Deferral Plan Provisions, with the exception of any amendments required by IRS rules or related to the tax-qualified status of the System and Deferral Plan. Any vacancy on the board shall be filled by election or appointment, as the case may be, for only the unexpired portion of the predecessor's term.
- b. As the term of each of the three directors elected by the membership expires or when a vacancy among such directors occurs, a successor shall be elected from such nominees as may be put in nomination by a petition subscribed to by not less than twenty-five members. Such election shall be by a majority of votes cast and, if no nominee obtains a majority in the initial balloting, a second vote shall be taken between the two nominees receiving the greatest number of votes in the initial balloting; provided, however, that when there are more than two nominees for a directorship, the board may in its discretion prescribe a form of ballot in which the voting members indicate the order of their preference among the various nominees and, if none of the nominees obtains a majority of first-choice votes among those cast, such order of preference shall be used in determining which of the two nominees receiving the greatest numbers of first-choice votes is elected. Ballots shall be distributed and received in such manner as the board

shall determine to assure the integrity of the election. In the event only one person is duly nominated for the directorship to be filed, the board may declare such nominee elected without the necessity of formal balloting by the membership.

- c. An individual is eligible to serve as a director of the board (either elected, appointed, or selected) no more than three full 3-year terms. Any partial term less than 3 years for which an individual has been elected, appointed, or selected under the provisions of this section 3(2) for the unexpired portion of a predecessor's term does not count toward this term limit of three full 3-year terms. Notwithstanding the above, any individual who has already served as a director for three full 3-year terms as of the effective date of this provision will be eligible to continue as a member of the board for the remainder of the director's current 3-year term.
- d. Any individual who is or was a participant in TVA's Supplemental Executive Retirement Plan or any similar non-qualified executive retirement plan maintained by TVA, will be ineligible to serve as a director of the board (either elected, appointed, or selected).
- e. Other than retirement benefits being received from the System as a retiree, the seventh director retiree, during the term as a member of the board, is prohibited from engaging in any business relationship for remuneration (either monetary or non-monetary) with TVA, any TVA distributor or direct-served customer, and any third-party entity that does or is seeking to do business with TVA, including, but not limited to, contracting, consulting, lobbying, or representation.
- def. Notwithstanding the other provisions of this section 3(2), when a director, elected by and from the membership, ceases to be a member of the System, that individual also ceases to be a director and an election shall be held immediately to replace that director for the unexpired portion of that term except that elected directors whose membership in the System ceases during the last 9 months of their elected term or during the 9 months prior to March 4, 1994, shall remain members of the Board for the remainder of that term unless they withdraw their entire retirement allowance from the System, resign from the Board, or die.
- efg. Notwithstanding the other provisions of this section 3(2), the board may initiate and enforce disciplinary actions against a director for violation of written policies formally adopted by the board, and such discipline may include action up to and including removal of the director from his or her position as a director on the board. A super-majority vote of the board (5 votes) is required for the removal of a director from the board pursuant to disciplinary actions under this subsection.

After discussion, Director DeLay made a motion to amend Section 3(2) as proposed. The motion received a second from Director Belcher. The motion to amend Section 3(2) failed by roll call vote for lack of receiving 4 votes. Directors Belcher, DeLay, and Hovious voted for the motion, and Directors Child, Hinton, and Wilson voted against the motion. Director Stokes was not eligible to vote on the proposed amendment pursuant to Section 3(2)(a) of the TVARS Rules.

* * *

479-22 (A-6596). The following proposal to amend Section 5 (Transparency) of the TVARS Governance Policy to provide for open meetings and listening sessions before meetings was placed on the agenda by Directors Belcher, DeLay, and Hovious for discussion and consideration by the Board:

5. Transparency

The Rules and Regulations do not require public access to meetings; however, the Board embraces the governance principles of transparency and accountability. As such, the Board will provide the following with respect to its meetings: (i) a listening session prior to each quarterly meeting and any special-called meeting, to the extent determined by the Board to be appropriate and feasible, for any TVARS member or retiree who requests in writing to speak before the Board, with the speaking topic disclosed by the TVARS member or retiree to the Board and the speaking time limited to no more than 3 minutes each speaker; (ii) open Board meetings for each quarterly meeting and any special-called meeting, to the extent determined by the Board to be appropriate and feasible, where any TVARS member or retiree may attend the Board meeting in order to listen to the Board conduct its business during the meeting; and (iii) a written shall ensure that a transcript of Board meetings, a copy of which will shall be provided to any TVARS member or retiree made available upon request; provided, however, in accordance with the Board's applicable policies, however, confidential information, including any member specific or proprietary information, may be redacted from the transcript.

After discussion, the Board agreed to postpone any action on this matter and requested the System staff to put together for the Board's future discussion and consideration other ideas for the Board to be more transparent in conducting business.

* * *

479-23 (A-6597). The Election Committee report consisted of the item reported below at A-6598.

* * *

479-24 (A-6598). The Election Committee presented, and the Board accepted, the results of the runoff election between Michael Belcher and Julia Koella that ended October 10, 2018. Michael Belcher received 55.1% of the votes to win election to the System Board for a three-year term from November 1, 2018, through October 31, 2021. Overall voter participation was 33% with 94% of the votes cast via the Internet. A copy of the certified election results from Election America is filed as Exhibit 479-24.

* * *

479-25 (A-6599). The Audit Committee report consisted of the items reported below at A-6600 and A-66601, and of the following items:

- The Board was provided and took note of a summary of charges on the System's credit card for the previous quarter.
- The Board was provided a draft risk assessment and key control listing for the System and various processes. The risk assessment and control listing will be discussed with the Board by the System's financial reporting staff at a later date. A copy of this information is filed as Exhibit 479-25(a).
- The Board was provided a copy of the fiduciary and governance training that will be provided by Aon to the Board in January. A copy of this training, along with a fiduciary 101 test for Directors, is filed as Exhibit 479-25(b).

* * *

479-26 (A-6600). Prior to the meeting, the Board met with Crowe, the System's auditor, via teleconference to review and discuss the results of the Service Organization Control (SOC1) Report for the System for the period August 1, 2016, to July 31, 2017. After discussion, and upon the recommendation of the Audit Committee, the Board accepted the SOC1 Report for the System for the period August 1, 2017, to July 31, 2018, prepared by Crowe. Following discussion with the System staff, upon the recommendation of the Audit Committee, the Board voted to accept the SOC1 Report. A copy of the SOC1 Report is filed as Exhibit 479-26.

* * *

479-27 (A-6601). Upon the recommendation of the Audit Committee, the Board voted to approve, and authorized the Executive Secretary to execute, an engagement letter with Crowe to perform the System's SOC1 audit for the period August 1, 2018, to July 31, 2019. A copy of the engagement letter with Crowe is filed as Exhibit 479-27.

* * *

479-28 (A-6602). The 7th Director Search Committee provided information to the Board on the results of the Board's voting process to identify five candidates for in-person interviews, scheduling and process for the interviews in January, and a draft of specific interview questions for the candidates. A copy of this information, along with the resumes of the five candidates for interviews, is filed as Exhibit 479-28.

* * *

479-29 (A-6603). The Executive Secretary Search Committee notified the Board that it will be developing a process to identify and evaluate potential candidates for the Board to consider for the Executive Secretary position. A copy of the TVARS Succession Planning Policy and job description for the Executive Secretary position is filed as Exhibit 479-29.

* * *

479-30. Following the Board's regular business and meeting agenda items, Directors Belcher, DeLay, and Hovious added for discussion and consideration by the Board the following proposal to amend the definition of "accrued liability" in Section 9B3 of the TVARS Rules to add a 20-year closed amortization period:

NOW, THEREFORE, BECAUSE TVARS WISHES TO COMPLY WITH TVA'S STATED GOAL AND THE GAO RECOMMENDATIONS, BE IT RESOLVED, that Section 9B3 of the Rules and Regulations of the TVA Retirement System is amended to add the language underlined as follows:

SECTION 9

9. Contributions to the System

B. TVA's Contributions

3. The "accrued liability" is the amount by which the present value of all benefits payable from contributions of TVA on account of all members and beneficiaries, as determined actuarially each year, exceeds the balance in the Accumulation Account as provided in section 10, and the present value of the aforesaid normal contribution to be made on account of such members during the remainder of their active service. Immediately following the valuation as of June 30, 1963, and following each annual valuation thereafter, the actuary engaged by the board shall compute the "accrued liability contribution," which shall be the percent of the total annual compensation of all members which, if paid over a period of 42 years beginning July 1, 1963, or the remainder thereof, would liquidate within such period the accrued liability as determined by the respective valuation. Provided, however, that for fiscal years after 2005, the "accrued liability contribution" shall be the percent of the total annual compensation of all members which, if paid over a period of 30 years, would liquidate within such period the accrued liability as determined by the respective valuation. Provided, however, that for fiscal years after 2016, the "accrued liability contribution" shall be a nominal contribution amount, which, if paid over 30 years, would liquidate within such period the accrued liability as determined by the respective valuation. Provided, however, that for fiscal years after 2018, the "accrued liability contribution" shall be a nominal contribution amount, which, if paid over a 20-year closed amortization period, would liquidate within such period the accrued liability as determined by the respective valuation.

After discussion, Director DeLay made a motion to amend Section 9B3 as proposed. The motion received a second from Director Belcher. The motion to amend Section 9B3 failed by roll call vote for lack of receiving 4 votes. Directors Belcher, DeLay, and Hovious voted for the motion, and Directors Child, Hinton, and Wilson voted against the motion. Director Stokes was not eligible to vote on the proposed amendment pursuant to Section 3(2)(a) of the TVARS Rules.

Director statements submitted regarding the vote

Statement of Director DeLay:

Current TVARS Rules require the use of a rolling 30-year amortization period for the accrued liability. This is analogous to refinancing your house with a new 30 year mortgage every year so that you never have to pay off the loan. The March 2017 GAO report to Congress titled “Tennessee Valley Authority: Actions Needed to Better Communicate Debt Reduction Plans and Address Billions in Unfunded Pension Liabilities” states that TVA officials have told the GAO that TVA has a goal to fully fund its pension within 20 years. The report also states that that a 15 to 20 year closed amortization period, which will actually pay off the entire accrued liability within the 15 to 20 year period, is the maximum period recommended by a Blue Ribbon Panel commissioned by the Society of Actuaries.

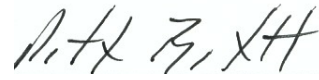
A motion to approve this same rule amendment was made and seconded by Leonard Muzyn and Jim Hovious at the June 15, 2017 board meeting. A motion to table the vote on the proposed amendment “to allow for further discussion and analysis of the GAO report and given Mercer’s current work analyzing the long-term funding policy of the System” was made and seconded by Brian Child and Tammy Wilson. The motion to table passed by a 4-3 vote. The board has now had a more than a year to further discuss and analyze this rule amendment.

Further supporting the need for this rule amendment, the TVARS Investment Committee received a “Pension Plan Analysis” on May 23, 2018 from Bridgewater which stated that the pension plan only has a 60%-80% chance of being fully funded in 20 years using an optimistic 6%-8% average return. The current funding plan does not provide the certainty of full funding promised to the GAO and expected by retirees. The fiduciary role of the TVARS board requires the TVARS board to request adequate funding from TVA. Not requesting adequate TVARS funding would be negligent, and now a year and six months have passed since the GAO report was received.

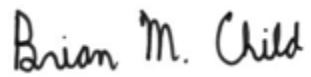
Last Board meeting this motion was defeated last meeting by appointed board members by a 4:3 vote. The funding need has not changed and the stock market has suffered losses recently. The Elected Board members want to propose TVARS request adequate funding again in light of recent market changes.

* * *

The meeting was adjourned at 2:19 p.m., EST.



Executive Secretary



Chair