

TVA Savings and Deferral Retirement Plan

Investment Policy Statement

Amended March 3, 2016

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1. Introduction

The TVA Savings and Deferral Retirement Plan is a qualified defined contribution plan designed in accordance with section 401(k) and other applicable sections of the Internal Revenue Code (the “401(k) Plan”). As a plan maintained for employees of the Tennessee Valley Authority, an agency of the Federal government, the 401(k) Plan is a governmental plan. The 401(k) Plan is administered by the TVA Retirement System Board of Directors (the “TVARS Board”) in accordance with the Provisions of the TVA Savings and Deferral Retirement Plan (the “401(k) Plan Provisions”).

This investment policy statement sets forth the process the TVARS Board has adopted to make investment related decisions with respect to assets of the 401(k) Plan in accordance with the 401(k) Plan Provisions and the 401(k) Plan Trust Agreement (the “Trust Agreement”). The TVARS Board has adopted this investment policy statement as a part of fulfilling the standards of conduct applicable to fiduciaries of defined contribution plans as prescribed by the Employee Retirement Income Security Act of 1974 (ERISA), even though the 401(k) Plan, as a Federal governmental plan, is exempt from the requirements of ERISA. The policy identifies the investment goals and objectives of the 401(k) Plan, sets out decision making processes for selecting investments, and specifies the procedures to be used in assessing ongoing investment performance in accordance with the stated investment objectives. The investment policy statement will be used as the basis for measuring and evaluating future investment performance and will be reviewed periodically by the TVARS Board.

2. 401(k) Plan Purpose

The purpose of the 401(k) Plan is to provide participants with long term accumulation of retirement savings through employee contributions, employer contributions, and earnings. The 401(k) Plan authorizes participants to direct contributions and accumulated balances among a range of investment options in order to construct a diversified portfolio that meets their specific objectives. Participants alone bear the risk of investment results from the options and the asset mixes that they select in the 401(k) Plan. This investment policy statement has been adopted by the TVARS Board to provide guidelines for the investment and management of assets held in trust for the benefit of participants in the 401(k) Plan.

3. Roles and Responsibilities

TVARS Board – The TVARS Board shall administer the 401(k) Plan in accordance with the 401(k) Plan Provisions and assure documentary and operational compliance of the 401(k) Plan with applicable IRS rules and regulations. The TVARS Board shall supervise the investment of the assets of the 401(k) Plan and make all decisions concerning selection and retention of the investment options available under the 401(k) Plan. Accordingly, the TVARS Board shall have authority to select and monitor funds, and to appoint investment managers, investment advisors, trustees, recordkeepers, legal counsel and any other services that may be required in the administration of the 401(k) Plan.

TVARS Staff – TVARS staff shall assist the TVARS Board in the administration of the 401(k) Plan serving as a resource for due diligence and analysis of service providers. TVARS staff shall also assist the TVARS Board in monitoring investment options offered in the 401(k) Plan as well as educating participants concerning all aspects of the 401(k) Plan.

Trustee/Recordkeeper – The trustee/recordkeeper selected by the TVARS Board shall perform the recordkeeping and administrative functions described in Schedule A of the Trust Agreement. The Trustee/recordkeeper shall settle transactions effected by participants, and account for all activity of the 401(k) Plan. The TVARS Board shall direct the trustee/recordkeeper as to what investment options 401(k) Plan participants may invest in. The trustee/recordkeeper shall also provide an accounting of all activity in the 401(k) Plan on a monthly basis, participant statements on a quarterly basis, and prepare required annual tax reporting. The Trust Agreement between the TVARS Board and the trustee/recordkeeper shall govern the actions of the trustee/recordkeeper.

Investment Advisor – An investment advisor may be appointed by the TVARS Board to assist in the overall supervision of the 401(k) Plan's investments. In this role, the investment advisor will offer resources for additional due diligence and analysis. The investment advisor may offer guidance and recommendations to the TVARS Board in the selection and retention of investment options available under the 401(k) Plan, the selection and retention of investment managers, where applicable, and assistance in the periodic monitoring of fund performance.

Participants – Participants in the 401(k) Plan are authorized to direct the investment of assets in their accounts in accordance with the terms of the 401(k) Plan Provisions and the Trust Agreement, selecting from the investment funds offered under the 401(k) Plan as they deem appropriate to meet their own retirement savings objectives. Participants may also exchange balances among investment options in the 401(k) Plan as allowed by the 401(k) Plan Provisions and the Trust Agreement, subject to specific fund restrictions. It is intended that the investment options offered under the 401(k) Plan comply with ERISA section 404(c) and

that the TVARS Board and other fiduciaries of the 401(k) Plan not be liable for any losses resulting from participant directed investments.

4. Investment Options

Investment options offered under the 401(k) Plan through Investment Managers shall be selected in order to (1) provide a wide range of investment opportunities in various asset classes, so as to allow for diversification and cover a wide risk/return spectrum; (2) provide reasonable returns within prudent levels of risk; (3) provide returns comparable to similar investment options; and (4) control administrative and management costs to the 401(k) Plan and participants.

The 401(k) Plan shall also include a range of professionally diversified investment options to provide employees with investment diversification based on their risk tolerance and/or target retirement date. Participants shall be able at all times to diversify the investment of their accounts among investment vehicles with disparate risk/return characteristics, and with a frequency appropriate in light of the volatility of the investments. Investment vehicles may consist of mutual funds, collective trusts, separate accounts, or unitized accounts, after consideration of cost and availability based on amount of assets to be invested and any administrative or other legal factors.

Selection criteria shall include, but not be limited to, the following:

- The investment option's volatility and performance relative to appropriate benchmarks
- The investment option's demonstrated adherence to stated investment objectives
- Competitiveness of fees and expense ratios compared to similar investments
- The Investment Manager's size, structure, and history; management profile and investment philosophy; staff experience and depth; and technological commitment to research

The TVARS Board shall regularly review the investment options offered under the 401(k) Plan in light of the criteria discussed above. In addition, the TVARS Board shall maintain an ongoing watch list of investment options that are not meeting certain prescribed quantitative and qualitative factors. Factors contributing to placing an option on watch status may include, but are not limited to, the following:

- Consistent performance relative to an appropriate benchmark index and peer group median
- Material increase in management fees or expense ratios

- Deviation from style for which the option was selected
- Turnover in the management team of the portfolio
- Change in the option's investment philosophy or process
- Significant increase or decrease of assets under management
- Organizational events such as changes in ownership, mergers, etc.

The guidelines and objectives set forth above and otherwise in this Investment Policy Statement are solely for TVARS Board to use in evaluating the initial and continued appropriateness of the investment options for the Plan. The TVARS Board will determine whether to change an investment offered in the Plan based on all of the data and information available.

In addition to the core investment lineup, the following specific types of funds may be used to satisfy specific investment objectives of the TVARS Board:

Target Date Funds – The 401(k) Plan will offer target date funds as a simple and efficient way for participants to create a diversified asset allocation with prudent risk and return characteristics based on their target retirement date. The target date funds will serve as the qualified default investment alternative (QDIA) for the 401(k) Plan. Currently there are no recognized set of industry standard indexes for target date funds. The asset allocation of target date funds changes over time and peer group comparisons are not always meaningful as the asset allocation within a peer group of target date funds can vary widely. Performance may be compared to a composite index that approximates its asset allocation model. The asset allocation model of a target date fund should be evaluated periodically. There should be a clear philosophy behind the model, a demonstrated process in executing the model, and a strong investment team/organization to support the entire process.

Index Funds – The 401(k) Plan will offer low cost index funds. The objective of an index fund is to closely mirror the performance of a predetermined market index at a reasonable cost. Evaluation of an index fund should focus primarily on performance tracking error versus the benchmark index and relative fees of other passive options.

Active Funds – The 401(k) Plan will offer a diversified line-up of active funds. The objective of an active fund is to outperform the performance of a predetermined market index at a reasonable cost. Evaluation of an active fund should focus on longer-term performance compared to a predetermined market index.

Self-Directed Brokerage (SDB) – In an effort to provide participants with maximum investment flexibility, a self-directed brokerage option may be offered, allowing participants to invest in publicly traded securities, including stocks, bonds, and mutual funds. The

TVARS Board will not be responsible for monitoring and evaluating investments selected by participants as part of the SDB.

Managed Accounts – The 401(k) Plan may offer managed accounts. Managed accounts may be appropriate for participants that wish to pay a fee to a financial professional for managing their assets in the 401(k) Plan. Generally, assets will be allocated to a mix of funds to provide a risk and return expectation commensurate with the specific risk profile of the participant, as determined through questionnaires or interviews, and agreed upon by the participant with the financial professional.

5. Amendment of this Policy

The TVARS Board reserves the right to amend this investment policy statement at any time and from time to time as it deems necessary or appropriate. The TVARS Board shall amend this investment policy statement as necessary to comply with any amendment to the 401(k) Plan Provisions or with any change in federal or other applicable law that may affect the investment of the 401(k) Plan's assets. If any term or condition of this investment policy statement conflicts with any term or condition of the 401(k) Plan Provisions, the 401(k) Plan Provisions and Trust Agreement shall control.

Appendix A: Investment Options and Performance Objectives

Tier	Investment Option	Index	Peer Group
Tier I	Target-Date	Custom Indices	Mixed Asset Target Date Funds
Tier II	U.S. Bond Index	Barclays Aggregate Index	N/A
Tier II	U.S. Large Cap Equity Index	S&P 500 Index	N/A
Tier II	U.S. Market Extension Index	Russell 2500 Index	N/A
Tier II	Non-U.S. Equity Index	MSCI ACWI-ex U.S. IMI Index	N/A
Tier III	Money Market	3 Month T-Bill	Taxable Money Market
Tier III	Stable Value	3 Year Constant Maturity Treasury Index	Stable Value
Tier III	Core Fixed Income	Barclays Aggregate Index	U.S. Broad Market Core Fixed Income
Tier III	Inflation Hedging	Custom Index	N/A
Tier III	Large Cap Value Equity	Russell 1000 Value Index	U.S. Large Cap Value
Tier III	Large Cap Growth Equity	Russell 3000 Growth/ Russell 1000 Growth Index	U.S. Large Cap Growth
Tier III	SMID Cap Value Equity	Russell 2500 Value Index	U.S. SMID Cap Value
Tier III	SMID Cap Growth Equity	Russell 2500 Growth Index	U.S. SMID Cap Growth
Tier III	International Equity	MSCI ACWI-ex U.S. Index	International Equity Markets
Tier IV	Brokerage Window	N/A	N/A