

Governance Policy

Adopted December 2, 2011

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Purpose

The Rules and Regulations of the TVA Retirement System (“Rules and Regulations”) governing the operations of the Tennessee Valley Authority Retirement System (“TVARS”) provide that the TVARS Board¹ is responsible for and has control over the general administration of the System. In satisfying their responsibilities, each Director performs a number of different functions including fiduciary functions. This Governance Policy (the “Policy”) is intended to establish the general governance framework in which the Board shall operate so as to allow the Board to carry out its responsibilities in an appropriate and efficient manner in accordance with its Rules and Regulations, Bylaws, other TVARS policies and applicable laws.

Policy Objectives

The objectives of the Policy are to ensure that:

1. The Board operates as effectively and efficiently as possible;
2. Key governance principles are clearly articulated;
3. Board and Director responsibilities are commonly understood; and
4. The implementation of the Policy can be effectively monitored by the Board.

Policy Requirements:

This Policy should be read in conjunction with the Rules and Regulations and Bylaws, which contain important information regarding the Board’s governance practices. In the event of a conflict between this Policy and the Rules and Regulations, the latter shall control. In the event of a conflict between this Policy and other policies, the more specific policy language, as determined by the Board, shall control. The Board has adopted the following governance guidelines:

1. Fiduciary Functions

When performing a fiduciary function, the Board and/or individual Directors shall generally act solely in the best interests of all of the Members, Retirees and Beneficiaries of the System and (a) for the exclusive purposes of providing benefits and defraying reasonable administrative expenses of administering the System, (b) with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; (c) by diversifying investments of the System to minimize the risk of large losses, unless the circumstances indicate it is not clearly prudent to do so, and (d) in accordance with the Rules and Regulations to the extent consistent with applicable law.

2. Annual Calendar

The Board has determined that it is in the best interest of the System for the Board to determine and to approve an annual Board meeting schedule with a corresponding annual work plan. Having an annual

¹ Capitalized terms not otherwise defined herein will generally have the meanings set forth in the Rules and Regulations of the TVA Retirement System.

schedule and work plan will ensure the Board addresses routine and non-routine items over the course of a year, as well as achieves its annual objectives. The work plan for the next year shall be presented to the Board at the last yearly meeting. The Board is required by the Rules and Regulations to meet at least quarterly. The Annual Calendar shall specify the meeting location.

3.Special Meetings

The Board is authorized to schedule additional meetings, if deemed necessary, upon the call of the Board Chair or three members of the Board, after giving appropriate notice to all Directors. The date for special meetings shall be determined by the availability of the majority of Directors. Where circumstances permit, the Board shall try to provide at least 72 hours notice for special meetings.

4.Meeting Attendance

Attendance at Board meetings is an essential element of a Director's responsibility. Therefore, Directors are expected to attend all meetings in person unless extenuating circumstances prevent such attendance. Attendance and voting by teleconference is permissible and counts toward the quorum. If any Director fails to attend Board meetings for four quarterly or consecutive meetings, without being excused, the Board may request the Director to resign his or her position. An excused absence is one that has been agreed to by all directors. If there is not unanimous consent to excuse an absence, a Board vote of at least four Directors will be required. The Board shall communicate to TVA supervisors the required time commitment expected of each Director.

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 shall ensure that a transcript of Board meetings shall be made available upon request. In accordance with the Board's applicable policies, however, confidential information, including any member specific or proprietary information, may be redacted from the transcript.

6.Board Meeting and Committee Meeting Agendas

Board meeting agendas are prepared by the Executive Secretary and reviewed and approved by the Board Chair. Draft agendas shall be provided at least seven to ten calendar days in advance to all Directors. Any Director may request that the Board Chair place an item on the agenda. Notification of the request shall be provided to the Executive Secretary. If the Chair declines to place an item on the agenda, three (3) individual Directors may petition in writing and place an item on the agenda. Time shall be reserved on each agenda for new business. The Board encourages interaction with TVARS stakeholders. Any TVARS stakeholder may request to participate in an upcoming Board meeting. The Board shall review each request on a case-by-case basis and determine, in its sole discretion, whether to grant such request. Non-TVARS stakeholders also may request to participate in an upcoming Board meeting. The Board shall review each request on a case-by-case basis and determine, in its sole discretion, whether to grant such request. If any request to participate in an upcoming Board meeting is granted, the Board

shall place such person(s) or group on the Board meeting agenda for that specific meeting.

The Executive Secretary or his or her designee shall prepare the Committee meeting agendas in sufficient time for review and approval by the Committee Chair. The Executive Secretary or his or her designee shall provide copies of all Committee meeting agendas in advance to all Directors. Agendas may indicate the expected start and end times for agenda topics, as well as designated breaks.

7. Consent Agenda

Consent agenda items included on the Board meeting agenda will primarily consist of routine administrative or ministerial matters that require Board action as recommended by TVARS staff, but which typically do not require Board discussion. The Board may approve consent agenda items via “notational approval,” which includes voting by e-mail. Upon written request provided to the Executive Secretary, any Director may remove an item from notational voting so that it will be discussed during an upcoming Board meeting. Matters which require Board discussion or for which Board discussion has been requested shall not be included on the consent agenda.

8. Action Items

Action items included on the Board agenda include those matters that are expected to involve Board discussion and a Board vote.

9. Meeting Materials

The Executive Secretary or his or her designee shall use reasonable efforts to provide the Board with meeting materials seven to ten calendar days in advance of Board meetings. The Executive Secretary shall periodically poll the Board to ensure that it is satisfied with the general content and format of the meeting materials that are provided. Based on input or reasonable requests from the Directors, the Executive Secretary may change the meeting materials provided to the Board in order to facilitate the Board’s decision making.

10. Rules of Order

Robert’s Rules of Order shall govern all Board and Committee meetings, except as otherwise determined by the Board. As specified in the Bylaws, voting by proxy is not allowed. Four affirmative votes are required for any Board decision or for the Board to take action. A summary of Roberts Rules of Order is attached to this Policy for reference.

11. Meeting Minutes

As soon as is reasonably practical, the Board shall review and approve the meeting minutes and the Executive Secretary shall place a copy of the approved meeting minutes on the TVARS’ website. The meeting minutes shall record each Director’s vote except when the Board vote is unanimous. If the Board

vote is unanimous, it shall be reflected in the Meeting minutes as such. Directors may include a brief statement in the meeting minutes describing the rationale for their vote or recusal on a particular issue.

12. Responsibilities of the Board

It is important that the Board govern and manage the System in an efficient, effective and prudent manner. To this end, the Board acknowledges its responsibilities, as articulated in the Rules and Regulations and Bylaws and to the extent not retained by or allocated to TVA, include the following:

- a) Amending the Plan via changes to the Rules and Regulations;
- b) Determining what types of benefits are payable and to whom they shall be paid;
- c) Establishing or changing employee rates of contribution, if any;
- d) Applying eligibility rules and benefit calculations in accordance with the Rules and Regulations;
- e) Controlling the administration of the System;
- f) Holding quarterly meetings;
- g) Electing a Chairperson and appointing a Secretary;
- h) Selecting a seventh member of the Board;
- i) Appointing three physicians to serve as the Medical Board;
- j) Adopting actuarial assumptions;
- k) Adopting service equivalents;
- l) Ensuring an actuarial review is conducted at least once every five years;
- m) Notifying TVA of the rates or amounts of TVA's contribution, including a rate of "normal contribution";
- n) Designating an actuary;
- o) Maintaining accounts of fiscal transactions;
- p) Submitting an annual financial report to the TVA Board of Directors;
- q) Establishing additional rules and regulations as necessary (not related to plan design or benefit levels);
- r) Establishing checking accounts, as needed, from which to pay benefits and administrative expenses;
- s) Serving as Trustee of the Deferral Plan;
- t) Establishing an Investment Committee, Retirement Committee, Audit Committee and additional standing and special committees of the Board, as necessary;
- u) Selecting one or more independent advisers to the Investment Committee; and
- v) Designating² and selecting a Trustee or Trustees and entering into Trust Agreements.

The responsibilities above shall not be construed to impose obligations greater than those provided for under the Rules and Regulations or Bylaws. In addition to the responsibilities provided for under the Rules and Regulations and Bylaws, the Board generally believes that the following also shall promote the effective, efficient and prudent governance and management of the System:

- a) Engage in appropriate strategic and annual planning for the System;
- b) Adopt appropriate policies and procedures to promote an environment where business is conducted in an ethical and transparent manner;
- c) Adopt appropriate governance policies and practices to enable the Board to operate in an effective, efficient and prudent manner;

² Trustee designations must be approved by the TVA Board

- d) Select appropriate legal counsel when deemed warranted;
- e) Adopt an appropriate Statement of Investment Policy consistent with the Rules and Regulations and based on current industry best practices;
- f) Assess its own performance by conducting a regular self-evaluation;
- g) Assess the Executive Secretary's performance regularly;
- h) Hire appropriate outside service providers (e.g., investment managers, consultants, and legal counsel) to support the operation and administration of the System and evaluate the performance of such outside service providers on an appropriate basis;
- i) Adopt an appropriate administrative budget, inclusive of expenditures set by TVA (i.e., employee salaries), to support the operation and administration of the System and regularly monitor compliance;
- j) Adopt procedures to protect the security of confidential information and monitor compliance on an appropriate basis;
- k) Monitor and respond, as deemed appropriate, to legislation and external factors that may impact the System;
- l) Adopt an appropriate disaster recovery plan in order to protect the System and its beneficiaries;
- m) Adopt appropriate internal controls and risk management practices and monitor compliance on an appropriate basis; and
- n) Communicate with Members, Retirees, Beneficiaries and other TVA stakeholders regarding the operation and the administration of the System in a timely and appropriate manner.

13. Responsibilities of the Director

For the TVARS Board to work efficiently and effectively, the Board believes that each Director has a personal responsibility to uphold the highest standards and to actively contribute to the governance of TVARS. The Board believes that each Director should:

- a) Work constructively with the other Directors to govern TVARS;
- b) Share opinions on issues, but respect the position of the Board once such position has been approved or adopted to the extent it does not violate the Board's fiduciary or other legal obligations;
- c) Interact in an appropriate and professional manner with TVARS staff, outside service providers, employers, Members, Retirees, Beneficiaries, and others;
- d) Discharge his or her fiduciary duties with care, skill, diligence and prudence, solely in the interest of all Members, Retirees and Beneficiaries, and for their exclusive benefit, in accordance with the Rules and Regulations, the Bylaws and applicable laws governing the System;
- e) Consider the best interest of the members, retirees, and beneficiaries as a whole, and not the interests of any sub-groups of the System or personal interests;
- f) Incur only reasonable and appropriate expenses in carrying out his or her duties as a Director;
- g) Prepare for Board and Committee meetings by reading materials in advance of the meeting and asking questions of TVARS staff;
- h) Attend Board and Committee meetings and participate in discussions;
- i) Respect the time commitment required for meetings by arriving prior to the start meetings and staying until the meetings are adjourned;
- j) Do not act or speak on behalf of the Board unless specifically authorized to do so;

- k) Acquire and maintain knowledge to effectively make decisions and evaluate those to whom duties have been delegated;
- l) Promptly report any suspected improper or unlawful conduct to the Board, a Director, legal counsel, or the Audit Committee, as appropriate;
- m) Avoid conflicts of interest or the appearance of a conflict of interest and disclose any potential or actual conflict of interest as required by the Rules and Regulations, the Board's policies or applicable law;
- n) Refrain from any self-dealing with TVARS assets or using TVARS to promote a personal business or to gain financial rewards;
- o) Maintain confidentiality of TVARS information, including Member, Retiree or other beneficiary specific information and certain investment activity, in accordance with applicable TVARS policies and applicable law; and
- p) Participate in appropriate continuing education and training, including attending the new Director orientation program during first year of his or her first term on the Board and the annual Director continuing education and training program.

Policy Review

The TVARS Board shall review this Policy periodically (normally every three years) to ensure it remains appropriate; provided, however, that the failure to review the Policy shall not invalidate the Policy. The Board may amend or terminate this Policy at any time. Notwithstanding the foregoing or any other terms of this Policy, this Policy does not confer any rights, benefits, or privileges upon the Executive Secretary, Members, retirees, beneficiaries, or any other third-parties.

Adopted _____

Attachment:

Summary of Robert's Rules of Order

1) Definition of Parliamentary Procedure

Parliamentary procedure is a set of rules for meeting conduct that allows all participants to be heard and to make decisions in an effective and efficient manner. It allows for:

- Motions that are in order
- Members to obtain the floor properly
- Discussion of differing points of view
- Orderly and courteous debate

2) Importance of Parliamentary Procedure

It provides a process by which issues can be addressed in a systematic fashion and increases the likelihood that satisfactory solutions can be identified. Parliamentary procedure can be adapted to fit the needs of any organization. When the basic rules are understood by all parties involved in the meeting, it can assist in effective decision making. Many boards of trustees have followed Robert's Rules of Order for their meetings.

3) Fixed Order of Business

Organizations using parliamentary procedure usually follow a fixed order of business. Below is a typical example:

- Call to order
- Roll call of members present
- Approval of the minutes of the last meeting
- Staff reports
- Board Chair report
- Unfinished business
- Presentations
- Other announcements
- Adjournment

4) Moving Motions

Those participating in the meeting conduct business by "moving motions." A motion is a proposal that the entire membership take action or a stand on an issue. Individual members can:

- Call to order
- Second motions

- Debate motions
- Vote on motions

5) **Basic Types of Motions:**

- 1) Main Motions: The purpose of a main motion is to introduce items to the board for consideration by all the members. Motions cannot be made when any other motion is on the floor, and yield to privileged, subsidiary, and incidental motions.
- 2) Subsidiary Motions: Their purpose is to change or affect how a main motion is handled, and is voted on before a main motion.
- 3) Privileged Motions: Their purpose is to address urgent issues about special or important matters unrelated to pending business.
- 4) Incidental Motions: Their purpose is to provide a means of questioning procedure concerning other motions and must be considered first.

6) **Presentation of Motions**

- The floor is obtained by a Board member
- The Chair is addressed
- The Board member making the motion waits to be recognized by the Chair
- The motion is made. Motions are best when stated concisely and affirmatively.
- Another Board member seconds the motion or the Chair shall call for a second. If there is no second to the motion it is lost.
- The Chair re-states the motion, thus placing the motion before the Board for consideration and action. The Board then either debates the motion, or may move directly to a vote.
- Once the motion is presented to the Board by the Chair it becomes "assembly property" and cannot be changed without the consent of the members.

7) **Expanding on a Motion**

A Board member may speak in favor of the motion after it is seconded and placed before the Board for consideration. The Board member who made the motion is always allowed to speak first. All comments and debate must be directed to the Chair. The Chair is also responsible for keeping any established time limits for speaking. The Board member who moved the motion may speak again only after other speakers are finished, unless called upon by the Chair.

8) **Putting the Question to the Board**

The Chair shall ask, "Are you ready to vote on the question?" If there is no more discussion, a vote is taken. When voting is complete, the Chair shall announce the result.

9) Voting on a motion

The method of vote on any motion depends on the situation and the by-laws or policy of the Board. There are five methods used to vote by most organizations:

- By Voice -- The Chair asks those in favor to say, "aye," those opposed to say "no." Any member may move for an exact count.
- By Roll Call -- Each member answers "yes" or "no" as his name is called. This method is used when a record of each person's vote is required.
- By General Consent -- When a motion is not likely to be opposed, the Chair says, "if there is no objection ...". The membership shows agreement by their silence, however if one member says, "I object," the item must be put to a vote.
- By Division -- This is a slight verification of a voice vote. It does not require a count unless the Chair so desires. Members raise their hands or stand.
- By Ballot -- Members submit a written vote, this method is used when secrecy is desired.

10) Other Common Motions

- Motion to Table -- This motion is often used to delay a decision on a motion. The option is always present, however, to "take from the table," for reconsideration by the Board.
- Motion to Postpone Indefinitely -- This is often used as a means of parliamentary strategy and allows opponents of motion to test their strength without an actual vote being taken. Also, debate is once again open on the main motion.