

Meeting No. 452

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

December 5, 2014

*[Edited to remove personal information of members and retirees and proprietary or other confidential information pursuant to TVARS Confidentiality Policy]*

The regular quarterly meeting of the Board of Directors (Board) of the TVA Retirement System (System) was held on Friday, December 5, 2014, at 12:24 p.m., EST, in the TVA Knoxville Office Complex, East Tower Plaza (old library), Knoxville, Tennessee.

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The following directors were present: Allen E. Stokes, Chair; Anthony L. Troyani, Vice-Chair; Brian M. Child; John M. Hoskins; James W. Hovious; Leonard J. Muzyn; and Tammy W. Wilson. Also present were Patrick D. Brackett, Executive Secretary; Pamela K. Ramsey, Assistant Secretary; W. Colby Carter, Senior Counsel, Retirement Benefits & Compliance; and Chris A. Stinnett, Sr. Analyst, Investment & Risk Management.

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452-1 Each director was notified in a memorandum dated November 4, 2014, of the regular quarterly meeting to be held on December 5, 2014. A copy of the notice from the Executive Secretary is filed as Exhibit 452-1.

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452-2 (A-6188). As required by the System's bylaws, an election was held for the office of Chair of the Board. Mr. Stokes was nominated as a candidate for the office of Chair. Pursuant

to the System's bylaws, the Directors voted by ballot, and Mr. Stokes was elected as Chair for a three-year term ending at the first meeting of the Board after October 31, 2017.

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452-3 (A-6189). As required by the System's bylaws, an election was held for the office of Vice-Chair of the Board. Messrs. Muzyn and Troyani were nominated as candidates for the office of Vice-Chair. Pursuant to the System's bylaws, the Directors voted by ballot, and Mr. Troyani was elected as Vice-Chair for a three-year term ending at the first meeting of the Board after October 31, 2017.

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452-4 (A-6190). There were no items to report from the Chair.

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452-5 (A-6191). The Executive Secretary's report included the following:

- The Executive Secretary provided information to the Board on the System staff's goals and objectives for fiscal year 2015. A copy of this information is filed as Exhibit 452-5.
- The Executive Secretary provided information to the Board on changes and reductions to the System staff as a part of TVA's Detailed Design workforce restructuring.

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452-6 (A-6192). The Legal Counsel's update included the following:

- On December 4, 2014, Chris Christie at Bradley Arant Boult Cummings, outside fiduciary counsel and legal counsel representing the System in the current lawsuit against TVA and the System, met with the Board on issues regarding the lawsuit.

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452-7 (A-6193). The Board discussed the minutes of Meeting No. 451 held September 11, 2014, and delayed approving the minutes for a future meeting pending submissions of and revisions to Director statements in the minutes.

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452-8 (A-6194). The Board noted its previous notational action approving an amendment to the Huff Alternative Fund Limited Partnership Agreement (LPA) extending the limited partnership termination date by one year in order to facilitate an efficient and orderly liquidation of the partnership's remaining investments and holdings. As a part of its approval, the Board delegated to the Executive Secretary the authority to execute the LPA amendment and requested the Executive Secretary to provide updates to the Board over the next year. A copy of the Huff Alternative Fund LPA amendment is filed as Exhibit 452-8.

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452-9 (A-6195). The Board accepted the Treasurer's Report for the quarter ending September 30, 2014. A copy of the Treasurer's Report is filed as Exhibit 452-9.

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452-10 (A-6196). The Board accepted the Investment Performance Report prepared by Wilshire Associates (Wilshire) for the quarter ending September 30, 2014. A copy of the Investment Performance Report is filed as Exhibit 452-10.

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452-11 (A-6197). The Board accepted the report of retirements approved for the quarter ending September 30, 2014. A copy of the report and a copy of summary demographic information regarding retirements in the quarter are filed as Exhibit 452-11.

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452-12 (A-6198). The Board accepted the Investment Review for the Savings and Deferral Retirement Plan (401(k) Plan) prepared by Fidelity Investment Institutional Services Company (Fidelity) for the quarter ending September 30, 2014. A copy of the 401(k) Plan Investment Review is filed as Exhibit 452-12.

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452-13 (A-6199). The Investment Committee report consisted of the items reported below at A-6200 and A-6201, and of the following items:

- The Board was provided information on the recent management changes at PIMCO, including the departure of Bill Gross, which the Board discussed. The Board also had a discussion with PIMCO on December 4, 2014, regarding these management changes. A copy of this information is filed as Exhibit 452-13(a).
- The Board was provided and took note of the quarterly report on manager compliance with investment guidelines. A copy of the report, dated September 30, 2014, is filed as Exhibit 452-13(b).
- The Board was provided and took note of information regarding investment manager asset transfers for the fiscal year 2014. A copy of this information is filed as Exhibit 452-13(c).
- The Board was provided and took note of information on due diligence meetings and conference calls between System staff and investment managers during the fourth quarter of fiscal year 2014. A copy of the information is filed as Exhibit 452-13(d).
- The Board was provided information from Wilshire analyzing the credit quality of the portfolios of each of the System's fixed income investment managers, which the Board discussed. A copy of the information is filed as Exhibit 452-13(e).
- The Board was provided and took note of a report giving the status and performance of the System's asset allocation to its "Tail Risk" strategy managed by PIMCO. Following the receipt of this information, the Board discussed questions and issues raised by TVA and certain Board members regarding the Tail Risk strategy. No action was taken by the Board. A copy of this report and discussion information is filed as Exhibit 452-13(f).
- The Board was provided an update on the funded status of the System as of September 30, 2014. A copy of the report is filed as Exhibit 452-13(g).

- The Board met with Wilshire's Private Markets group, which provided a private equity primer presentation for the Board, including private equity investment implementation options. A copy of the Wilshire presentation is filed as Exhibit 452-13(h).
- The Board was provided and took note of the quarterly analysis of 401(k) Plan investment options with respect to the Plan's watch list criteria. A copy of this information is filed as Exhibit 452-13(i).
- The Board was notified by Wilshire's Private Markets group that the term of the private equity partnership, Wilshire U.S. Private Markets Fund IV, L.P., in which the System is a limited partner, has been extended for a period of one year through July 31, 2015, and is subject to further one-year extension terms. A copy of the letter notice to the Executive Secretary, dated September 12, 2014, is filed as Exhibit 452-13(j).
- The Board was provided a high yield benchmark fit analysis by Wilshire. The System's two high yield investment managers are currently benchmarked to the Credit Suisse High Yield Index despite the fact that their strategies under the investment guidelines with the System do not mirror the benchmark. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved changing the benchmark for the Oaktree U.S. High Yield Bonds portfolio to the Citi High Yield Cash Pay Cap All BB/B Index but to maintain the Credit Suisse High Yield Index for the MacKay Shields High Yield Strategy portfolio. A copy of Wilshire's analysis is filed as Exhibit 452-13(k).
- The Board was provided information on alternative benchmarking approaches for the System's private equity portfolio. Currently, the System's total fund benchmark includes a component to act as a benchmark for the private equity portion of the total fund, which is the Wilshire 5000 Index lagged one quarter. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved changing the private equity benchmark to an actual private equity time-weighted performance measured on an internal rate of return (IRR) basis. A copy of Wilshire's information is filed as Exhibit 452-13(l).
- The Board was provided and took note of a fee benchmarking report from Wilshire for all of the System's managers and portfolios. A copy of Wilshire's report is filed as Exhibit 452-13(m).
- Prior to the meeting, the Board met with Hewitt EnnisKnupp (HEK), the consultant for the 401(k) Plan. During the meeting, HEK reviewed with the Board a manager search report and recommended fund options for the various tiers of the proposed 401(k) Plan investment menu structure: Tier 1 target date funds, Tier 2 passive funds, and Tier 3 actively-managed funds. A copy of HEK's manager and fund searches and manager in-briefs is filed as Exhibit 452-13(n).

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452-14 (A-6200). Under the System's current asset allocation policy, five percent (5%) of the System's assets will be allocated to global low volatility equity. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved the selection of Acadian Asset Management (Acadian) and Los Angeles Capital Management (LA Capital) as global low volatility equity managers. Acadian and LA Capital will each be responsible for management of one-half of the remaining 5% allocation of this asset class to be invested (\$275 million or approximately \$137 million each). As a part of this action, the Board approved the following resolution:

WHEREAS section 4 of the Rules and Regulations of the TVA Retirement System (System) authorizes the Board of Directors of the System to designate and select investment managers and to enter into investment management agreements subject to the approval of the Board of Directors of TVA; and

WHEREAS the Investment Committee of the System, other representatives of the System, and Wilshire Associates Incorporated have reviewed the qualifications of potential investment managers who have demonstrated expertise in managing global low volatility equity portfolios and have recommended that the System Board designate and select Acadian Asset Management (Acadian) and Los Angeles Capital Management (LA Capital) as investment managers to each manage a portion of the assets of the System's Fixed Benefit Fund;

BE IT RESOLVED, That the System Board hereby designates and selects Acadian and LA Capital to each manage a portion of the assets in the System's Fixed Benefit Fund and authorizes the Executive Secretary to negotiate and sign an investment management agreement and to negotiate other related documents between the System and each of these managers necessary to effect the investment of the assets with each of Acadian and LA Capital.

A copy of a report from Wilshire on the global low volatility equity manager search, dated December 4, 2014, is filed as Exhibit 452-14.

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452-15 (A-6201). Upon the recommendation of the Investment Committee, the Board voted to approve, and authorized the Executive Secretary to execute, a contract with Wilshire for investment consulting services for the period January 1, 2015, through December 31, 2015. A copy of the contract is filed as Exhibit 452-15.

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452-16 (A-6202). The Retirement Committee report consisted of items reported below at A-6203, A-6204, A-6205, A-6206, and A-6207, and of the following items:

- The Board was provided and took note of the quarterly report on System communications, including TVARA website updates, TVARA news articles, TVARA meetings, TVARS website updates, TVA Today articles, including an article on TVARS' 75<sup>th</sup> anniversary, and updated publications on the Fidelity NetBenefits website. A copy of the Quarterly Communication Update is filed as Exhibit 452-16.
- The Board was provided information on the number of retirements processed by System staff as a result of voluntary and involuntary reductions in force (RIFs) from TVA's Detailed Design workforce restructuring.

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452-17 (A-6203). The Board discussed and approved a tentative schedule and locations for the Board meetings to be held in calendar year 2015. This tentative schedule is filed as Exhibit 452-17.

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452-18 (A-6204). The Chair presented recommendations for the Board's standing and special committee members. After discussion of the recommendations, the Board approved the following standing and special committee assignments, as recommended by the Chair:

Audit Committee

Leonard J. Muzyn, Chair  
Brian M. Child  
James W. Hovious

Retirement Committee

John M. Hoskins, Chair  
Anthony L. Troyani  
Tammy W. Wilson

Investment Committee

Brian M. Child, Chair  
Leonard J. Muzyn, Vice Chair  
John M. Hoskins  
James W. Hovious  
Allen E. Stokes  
Anthony L. Troyani  
Tammy W. Wilson  
Michael Brakebill (non-voting)

Election Committee

Anthony L. Troyani, Chair  
John M. Hoskins  
James W. Hovious

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452-19 (A-6205). The Board approved the calculation of a 1.68% cost-of-living allowance (COLA) increase in the monthly pension and supplemental benefits payable to eligible retirees and beneficiaries in accordance with the System Rules. The COLAs are effective with the January 2015 payments as provided for in sections 6I, 7L and 18C3 of the System Rules. A copy of the COLA calculation is filed as Exhibit 452-19.

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452-20 (A-6206). The Board approved the calculation of a 6% annual interest rate credit to participants' accounts in the Cash Balance Benefit Structure for calendar year 2015 in accordance with the System Rules. Under section 7C3 of the System Rules, this interest rate credit is calculated as the greater of (i) the percentage change in the Consumer Price Index plus 3 percent (not to exceed 10 percent unless approved by the System Board and TVA) or (ii) 6 percent. The relevant CPI increase of 1.68% plus 3% equaled 4.68%. A copy of the Cash Balance annual interest rate calculation is filed as Exhibit 452-20.

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452-21 (A-6207). Pursuant to the System's Administrative Claims and Appeals Procedures, the Board considered an appeal from a recent TVA retiree, [redacted], requesting that the Board grant credit for his leave without pay (LWOP) for TVA co-op service in the calculation of creditable service for his pension. Certain estimates of his retirement benefits had included credit for this co-op service. Under TVA policy, TVA does not make contributions to TVARS for periods of LWOP pursuant to participation in the co-op program at TVA. After review and discussion of the appeal, because the System Rules do not credit these periods of LWOP for purposes of retirement pension benefits, the Board voted 6 to 0, with Director Hoskins abstaining, to deny the appeal. A copy of the appeal materials is filed as Exhibit 452-21.

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452-22 (A-6208). The Election Committee had no items to report.

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452-23 (A-6209). The Audit Committee report consisted of the items reported below at A-6210, A-6211, and A-6212, and of the following items:

- The Board was provided and took note of the System Board's travel expenses for the previous quarter.
- 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 information on the audit timeline for the System and the 401(k) Plan by Crowe Horwath, the System's external auditor. Prior to the meeting, the Board participated in a teleconference with Crowe Horwath to discuss the progress on and status of the audit.
- Pursuant to the TVARS Ethics and Code of Conduct Policy, the Board and staff (i) were provided a copy of a synopsis of the Office of Government Ethics (OGE) Standards of Ethical Copy and the TVARS Ethics and Code of Conduct Policy, and (ii) signed an acknowledgment that each of them had read and will abide by the OGE

Standards of Ethical Conduct and the TVARS Ethics and Code of Conduct Policy. A copy of these materials and the signed acknowledgment is filed as Exhibit 452-23.

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452-24 (A-6210). After discussion, and upon the recommendation of the Audit Committee, the Board accepted the Service Organization Control (SOC1) Report for the System for the period August 1, 2013, to July 31, 2014, prepared by E.H. Johnson & Company, P.C., the System's internal auditor. A copy of the SOC1 Report is filed as Exhibit 452-24.

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452-25 (A-6211). After discussion, and upon the recommendation of the Audit Committee, the Board voted 5 to 2 to approve a contract with Jeanna Cullins of Hewitt EnnisKnupp for governance consulting and fiduciary training services for calendar year 2015. As a part of this approval, the Board delegated to the Executive Secretary the authority to negotiate and execute this contract on acceptable terms. Directors Child, Hoskins, Stokes, Troyani, and Wilson voted in favor of the approval, and Directors Hovious and Muzyn voted against the approval. A copy of the consulting services contract with Hewitt EnnisKnupp is filed as Exhibit 452-25.

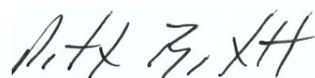
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452-26 (A-6212). The Board discussed with Senior Counsel some outstanding issues and questions regarding the proposed fiduciary liability insurance policy and prices quotes from AIG obtained by insurance broker, Marsh & McLennan. After further discussion, upon the recommendation of the Audit Committee, the Board approved the purchase of a one-year fiduciary liability insurance policy with \$10 million in coverage, subject to a \$500,000 deductible, for the Board and System staff. As a part of this approval, the Board delegated to the

Executive Secretary the authority to take any action necessary to secure and execute the policy with an effective coverage date as soon as possible. A copy of an e-mail from Senior Counsel to the Executive Secretary regarding outstanding issues and questions on the fiduciary liability policy is filed as Exhibit 452-26.

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The meeting was adjourned at 12:52 p.m., EST.



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Executive Secretary



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Chair