

Meeting No. 447

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

March 14, 2014

(Edited to remove personal information related to individual members and retirees and proprietary information.)

The regular quarterly meeting of the Board of Directors (Board) of the TVA Retirement System (System) was held on Friday, March 14, 2014, at 11:49 a.m., EDT, in the Kinsey Room, Chattanooga Hotel, 1201 Broad Street, Chattanooga, Tennessee.

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The following directors were present: Allen E. Stokes, Vice-Chair and Acting Chair; Brian M. Child; John M. Hoskins; James W. Hovious; Leonard J. Muzyn; Anthony L. Troyani; and Tammy W. Wilson. Also present were Patrick D. Brackett, Executive Secretary; Pamela K. Ramsey, Assistant Secretary; Eric J. Davis, Program Manager, Investment & Risk Management; W. Colby Carter, Internal Legal Counsel; and Chris Christie, Bradley Arant Boult Cummings, External Legal Counsel (via telephone).

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447-1 Each director was notified in a memorandum dated February 12, 2014, of the regular quarterly meeting to be held on March 14, 2014. A copy of the notice from the Executive Secretary is filed as Exhibit 447-1.

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447-2 (A-6105). There were no items to report from the Acting Chair.

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447-3 (A-6106). Given the expiration of the term of the Director position held by Les Bays on October 31, 2013, a vacancy was created in the office of Chair of the Board. At its previous quarterly meeting on December 13, 2013, the Board held elections for the office of Chair but no candidate received the required four votes necessary to be elected chair (see Minute Entry 446-3). Mr. Stokes as Vice Chair and Acting Chair called for another election of a new Chair. Mr. Stokes and Mr. Muzyn were nominated as candidates for the office of Chair. Pursuant to the System's bylaws, the directors voted by ballot, and Mr. Stokes was elected Chair for the

remainder of the current three-year term ending at the first meeting of the Board after October 31, 2014.

As the new Chair, Mr. Stokes' previous position as Vice Chair became vacant and he called for the election of a new Vice Chair. Mr. Troyani was nominated as a candidate for the office of Vice Chair. Pursuant to the System's bylaws, the directors voted by ballot, and Mr. Troyani was elected Vice Chair for the remainder of the current three-year term ending at the first meeting of the Board after October 31, 2014.

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447-4 (A-6107). There were no items to report from the Executive Secretary.

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447-5 (A-6108). The Legal Counsel's update included the following:

- On March 13, 2014, Bradley Arant Boult Cummings, outside legal counsel representing the System in the current lawsuit against TVA and the System, discussed with the Board issues regarding the lawsuit.
- Internal Legal Counsel informed the Board that the System filed applications with the IRS in January 2014 requesting new determination letters regarding the tax-qualified status of the System and the 401(k) Plan, and in February 2014, the System received letters from the IRS acknowledging that it had received the applications and would be assigning the applications to reviewers.

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447-6 (A-6109). The Board approved the minutes of Meeting No. 446 held December 13, 2013.

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447-7 (A-6110). The Board noted its previous notational action approving Mercer's Statement of Work to provide actuarial services and related plan language suggestions regarding alternative funding methods associated with a potential settlement in the current lawsuit against TVA and the System. As a part of its approval of Mercer's Statement of Work, the Board delegated to the Executive Secretary the authority to take any actions necessary to effect that approval. A copy of Mercer's Statement of Work is filed as Exhibit 447-7.

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447-8 (A-6111). The Board noted its previous notational action approving, at the request and recommendation of Bradley Arant Boult Cummings, the disclosure of three documents to plaintiffs in the lawsuit as requested by them.

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447-9 (A-6112). The Board accepted the Treasurer's Report for the quarter ending December 31, 2013. A copy of the Treasurer's Report is filed as Exhibit 447-9. This report is available for review at the Retirement System Office.

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447-10 (A-6113). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ending December 31, 2013. A copy of the Investment Performance Report is filed as Exhibit 447-10. This report is available for review at the Retirement System Office.

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447-11 (A-6114). The Board accepted the report of retirements approved for the quarter ending December 31, 2013. A copy of the report and a copy of summary demographic information regarding retirements in the quarter are filed as Exhibit 447-11. This report contains information on individual cases and is not available for review.

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447-12 (A-6115). 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 December 31, 2013. A copy of the 401(k) Plan Investment Review is filed as Exhibit 447-12. This report is available for review at the Retirement System Office.

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447-13 (A-6116). The Investment Committee report consisted of the items reported below at A-6117, A-6118, A-6119, A-6120 and A-6121, and of the following items:

- The Board was provided and took note of the quarterly report on manager compliance with investment guidelines. A copy of the report, dated December 31, 2013, is filed as Exhibit 447-13(a).
- The Board was provided and took note of information regarding investment manager asset transfers during the fourth quarter of 2013. A copy of this information is filed as Exhibit 447-13(b).

- 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 2013. A copy of the information is filed as Exhibit 447-13(c).
- The Board was provided and took note of a staff report on quarterly economic indicators. A copy of the report is filed as Exhibit 447-13(d).
- 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 Pacific Investment Management Company (PIMCO). A copy of this report is filed as Exhibit 447-13(e).
- The Board was provided an update on the funded status of the System through February 14, 2014. A copy of the report is filed as Exhibit 447-13(f).
- The Board was provided information on private asset investment consulting services. A copy of this information is filed as Exhibit 447-13(g).
- 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 447-13(h).
- The Board was provided information on the upcoming annual Wilshire consulting client conference. In addition, in accordance with the Board's travel policy, the Board accepted the payment of expenses from Wilshire for any Board member and System staff who attend the Wilshire consulting client conference and any events integral to the conference. A copy of the information regarding the conference is filed as Exhibit 447-13(i).
- The Board was provided information on the recent management changes at PIMCO, which the Board discussed. The Board also had a discussion with PIMCO on March 13, 2014, regarding these management changes. A copy of this information is filed as Exhibit 447-13(j).
- The Board was provided information from WAMCO and the System staff about a recently announced settlement between WAMCO and the SEC and DOL regarding certain securities purchased in a portfolio for other WAMCO clients. A copy of this information is filed as Exhibit 447-13(k).
- The Board was provided information summarizing the results of a trade cost analysis previously performed by Zeno Consulting Group along with its proposal for continuing trade cost analysis services. A copy of this information is filed as Exhibit 447-13(l).

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447-14 (A-6117). Under the System's current asset allocation policy, five percent (5%) of the System's assets will be allocated to emerging market debt (EMD). After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved the selection of TCW Asset Management Company (TCW) and Lazard Asset Management LLC (Lazard) as EMD managers, who will invest the assets in portfolios of EMD each with benchmarks consisting of a 50% hard currency index and a 50% local currency index blended weighting. TCW and Lazard will each be responsible for management of one-half of the 5% EMD allocation (or approximately \$180 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 emerging market debt (EMD) portfolios and have recommended that the System Board designate and select TCW Asset Management Company (TCW) and Lazard Asset Management LLC (Lazard) 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 TCW and Lazard 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 TCW and Lazard.

A copy of a report from Wilshire on the EMD manager search, dated March 13, 2014, is filed as Exhibit 447-14.

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447-15 (A-6118). After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board voted to approve, and authorized the Executive Secretary to execute, an amendment to the investment guidelines with Guggenheim Partners Asset Management (Guggenheim), a current fixed income investment manager of the System, to allow investment in collateralized loan obligations (CLOs), along with bank loans, up to a combined 30% of the portfolio. A copy of memos from the Executive Secretary and Wilshire to the Board are filed as Exhibit 447-15.

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447-16 (A-6119). After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board voted to approve, and authorized the Executive Secretary to execute, an amendment to the investment guidelines with Fisher Investments (Fisher), a current small-cap value investment manager of the System, to make the following changes: increase of maximum cash from 7% to 10%, allow ADRs up to 5%, allow ETFs up to 10%, benchmark weight changes, and set maximum sector exposure at 55%. A copy of a memo from the Executive Secretary with the amended guidelines are filed as Exhibit 447-16.

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447-17 (A-6120). After discussion, and upon the recommendation of the Investment Committee, the Board approved a delegation of authority to the Executive Secretary on a going-forward basis to approve and execute revisions and amendments to investment manager guidelines. Any revisions and amendments to investment manager guidelines will be reported to the Board at each quarterly meeting. A copy of a memo regarding this delegation is filed as Exhibit 447-17.

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447-18 (A-6121). Under the System's current asset allocation policy, five percent (5%) of the System's assets will be allocated to low volatility equity. After discussion, and upon the recommendation of Wilshire and the Investment Committee, as a part of initially funding this target asset class, the Board approved moving \$100 million from PIMCO's small-cap enhanced stocks-plus portfolio and to a new PIMCO-managed volatility strategy portfolio utilizing a diversified income portfolio as collateral. A copy of information from Wilshire regarding PIMCO's low-volatility strategy portfolio is filed as Exhibit 447-18.

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447-19 (A-6122). The Retirement Committee report consisted of items reported below at A-6123, A-6124 and A-6125, and of the following items:

- The Board was provided with a Quarterly Communication Update providing the communication initiatives implemented during the second quarter of fiscal year 2014. A copy of the Quarterly Communication Update is filed as Exhibit 447-19(a).
- The Board was provided for review and comments draft amendments to the System's Rules and Regulations and the 401(k) Plan Provisions establishing a 401(k) Plan-only retirement benefit for new TVA employees. No action was taken. A copy of the draft amendments are filed as Exhibit 447-19(b).
- Mr. Muzyn led a discussion with Board members regarding TVA's pension funded status relative to other peer utility pension plans and provided documents for

discussion purposes. A copy of Mr. Muzyn's discussion materials are filed as Exhibit 447-19(c).

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447-20 (A-6123). Upon the recommendation of the Retirement Committee, the Board accepted the Report of Actuary on the Seventy-Fourth Actuarial Valuation of the TVA Retirement System prepared by Mercer as of September 30, 2013. A copy of a letter from Réal Lamarche, Partner, Mercer, to the Board, dated March 12, 2014, and a copy of the System's Actuarial Valuation, are filed as Exhibit 447-20.

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447-21 (A-6124). 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

Tammy W. Wilson, Chair
Brian M. Child
Anthony L. Troyani

Retirement Committee

Brian M. Child, Chair
James W. Hovious
Anthony L. Troyani

Investment Committee

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

Election Committee

James W. Hovious, Chair
Tammy W. Wilson
Leonard J. Muzyn

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447-22 (A-6125). Upon the recommendation of the Executive Secretary and the Retirement Committee, the Board voted 6 to 1 to approve the following resolution changing the pension administration procedure related to the partial month final payment due upon the death of a retiree or beneficiary when there is no continuing or lump-sum benefit payable to a designated beneficiary:

BE IT RESOLVED, that, on and after April 1, 2014, in order to facilitate the settlement of the accounts of deceased retirees and beneficiaries in the event of no continuing survivor benefits or eligible lump-sum benefits elected at retirement, benefits will be paid only if the retiree or beneficiary is living on the last day of the month for which such payment is to be made; and if such retiree or beneficiary dies prior to the last day of said month, the installment accrued at the end of the preceding calendar month shall constitute the last installment to which said retiree or beneficiary is entitled.

FURTHER RESOLVED, that the provisions of the resolution adopted on November 10, 1970, Minute Entry 175-18, regarding the accrual of benefits, and the resolution adopted on December 7, 2001, Minute Entry 374-23, regarding the order of precedence, be superseded or rescinded effective as of the date referred to in the first resolved clause.

Director Hovious voted against approval of the resolution. A memo from the Executive Secretary regarding the recommended change in the procedure related to partial month final payments is filed as Exhibit 447-22.

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447-23 (A-6126). The Election Committee had no items to report.

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447-24 (A-6127). The Audit Committee report consisted of the items reported below at A-6128 and A-6129, and of the following items:

- On March 14, 2014, the Board met with Brenda Torres and Jennifer Allen of Crowe Horwath, LLP, the System's external auditor, to discuss the status of the fiscal year 2013 financial statement audit being performed by Crowe Horwath and the fiscal year 2013 annual report.
- The Executive Secretary provided the Board with an update on board of director fiduciary liability insurance proposals from Marsh & McLennan and that these proposals will be provided and discussed at an upcoming Board meeting.
- In accordance with the Board's Service Provider Evaluation and Interaction Policy, the Audit Committee will be issuing an RFP for SOC 1 audit services, which are currently performed by E.H. Johnson & Company, P.C. Following evaluation of the proposals by the Audit Committee and System staff, as well as interviews with selected firms, the Audit Committee will provide a recommendation for a contract for

these services at an upcoming Board meeting. A copy of a memo from the Executive Secretary and the RFP are filed as Exhibit 447-24.

- 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.

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447-25 (A-6128). The Audit Committee discussed with the Board the results of the Report on Agreed Upon Procedures from E.H. Johnson & Company, P.C. E. H. Johnson performs specific agreed upon procedures to assist the Board in evaluating certain selected internal accounting control activities, and to assist the external auditors in the detailed testing for their audits of the plans. Upon the recommendation of the Audit Committee, the Board accepted the Report on Agreed Upon Procedures. A copy of the Report on Agreed Upon Procedures for the Tennessee Valley Authority Retirement System 2013 is filed as Exhibit 447-25.

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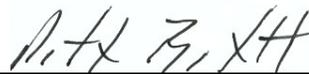
447-26 (A-6129). After discussion, and upon the recommendation of the Audit Committee and the Executive Secretary, the Board approved the selection of Gabriel, Roeder, Smith & Company to perform an actuarial audit of the System's actuarial work. A copy of a memo from the Executive Secretary regarding Gabriel, Roeder is filed as Exhibit 447-26.

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447-27 (A-6130). The Executive Secretary provided an update on the status of the Board's request to TVA to enter into a loaned employee arrangement for all TVA employees working for the System. The Chair expressed the desire of the Board to hear an answer from TVA soon.

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The meeting was adjourned at 12:13 p.m., EDT.



Executive Secretary



Chair