

Meeting No. 454

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

March 6, 2015

*[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, March 6, 2015, at 12:06 p.m., EST, in the Kinsey Room, Chattanooga Hotel, 1201 Broad Street, Chattanooga, Tennessee.

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The following directors were present: Allen E. Stokes, Chair (via telephone); 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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454-1 Each director was notified in a memorandum dated February 6, 2015, of the regular quarterly meeting to be held on March 6, 2015. A copy of the notice from the Executive Secretary is filed as Exhibit 454-1.

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454-2 (A-6213). There were no items to report from the Chair.

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454-3 (A-6214). There were no items to report from the Executive Secretary.

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454-4 (A-6215). Prior to the Board meeting, Chris Christie of 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.

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454-5 (A-6216). The Board approved, as amended, the minutes of Meeting No. 451 held September 11, 2014.

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454-6 (A-6217a). The Board approved the minutes of Meeting No. 452 held December 5, 2014.

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454-7 (A-6217b). The Board approved the minutes of Special-Called Meeting No. 453 held March 4, 2015.

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454-8 (A-6218). The Board accepted the Treasurer's Report for the quarter ending December 31, 2014. A copy of the Treasurer's Report is filed as Exhibit 454-8.

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454-9 (A-6219). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ending December 31, 2014. A copy of the Investment Performance Report is filed as Exhibit 454-9.

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454-10 (A-6220). The Board accepted the report of retirements approved for the quarter ending December 31, 2014. A copy of the report with summary demographic information regarding retirements in the quarter is filed as Exhibit 454-10.

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454-11 (A-6221). 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, 2014. A copy of the 401(k) Plan Investment Review is filed as Exhibit 454-11.

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454-12 (A-6222). The Investment Committee report consisted of the items reported below at A-6223 and A-6224, 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, 2014, is filed as Exhibit 454-12(a).
- The Board was provided and took note of information regarding investment manager asset transfers during the fourth quarter of 2014. A copy of this information is filed as Exhibit 454-12(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 2014. A copy of the information is filed as Exhibit 454-12(c).
- 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 454-12(d).
- The Board was provided an update on the funded status of the System through December 31, 2014. A copy of the report is filed as Exhibit 454-12(e).
- 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 454-12(f).

- 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 454-12(g).
- The Board was provided an update on the current investments and liquidation strategy of the W.R. Huff Alternative Fund in which the System is a limited partner. A copy of this information from W.R. Huff is filed as Exhibit 454-12(h).
- As a part of the current asset/liability study being performed by Wilshire, the Board was provided information on the expected risk and return assumptions in the study. A copy of this information is filed as Exhibit 454-12(i).
- 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. System staff recommended to the Board that the System perform a trade cost analysis on a periodic basis (i.e., once every three to five years) and not on a quarterly basis as proposed by Zeno. A copy of this information is filed as Exhibit 454-12(j).
- The Board was provided and took note of net internal rate of return (net IRR) performance information for all of the funds in the System's private markets portfolio (private equity, private real estate, and private real assets) compared to both vintage year IRRs for each fund and public market equivalent annualized performance. A copy of this information from Wilshire is filed as Exhibit 454-12(k).
- On Thursday, March 5<sup>th</sup>, the Board met with Aon Hewitt Investment Consulting (AHIC f/k/a Hewitt EnnisKnupp), the consultant for the 401(k) Plan. After reviewing the proposed investment menu structure and manager search report with AHIC, the Board tentatively selected the four tiers of a new 401(k) Plan investment menu structure – Tier 1 target-date funds, Tier 2 passive funds, Tier 3 actively-managed funds, and Tier 4 brokerage window – and the fund options within each tier. A copy of AHIC's manager and fund searches and manager in-briefs is filed as Exhibit 454-12(l).

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454-13 (A-6223). Over the last several months, the Board has been discussing, along with System staff, questions and issues raised by TVA and certain Board members regarding the on-going purpose and effectiveness of the Tail Risk strategy managed by PIMCO. Following

further discussion, a motion was made by Mr. Child to remove the Tail Risk mandate with PIMCO. The motion received a second from Ms. Wilson. A motion was then made by Mr. Muzyn to table the vote on the original motion so the Board could study in more detail the effect of removing the Tail Risk mandate on the System portfolio's asset allocation strategy. At the request of the Chair, the Board went into executive session at 12:25 p.m. in order to discuss the two pending motions.

The executive session ended at 12:57 p.m. Following the executive session, Mr. Muzyn withdrew the motion to table, and Mr. Child made an amended motion to remove the Tail Risk mandate with PIMCO and, in conjunction with this action, ask Wilshire as a part of its current asset/liability study to model additional risk/return portfolios, including ones that might approximate a risk level on the current System portfolio with the Tail Risk mandate. The amended motion received a second from Ms. Wilson. With no more discussion, the Board approved the amended motion. A copy of a memo from Wilshire to the Board and System staff regarding tail risk hedging in relation to traditional asset allocation in managing portfolio risk is filed as Exhibit 454-13.

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454-14 (A-6224). Under the System's current asset allocation policy, five percent (5%) of the System's assets are allocated to commodities. Given the recent dramatic price decline in energy-related commodities, specifically oil, the value of the System's commodities allocation has dropped from 5% to 3.9% of the total portfolio into the range that requires rebalancing under the System's Investment Policy Statement. After discussion, and upon the recommendation of the Executive Secretary and the Investment Committee, the Board approved not rebalancing the System's portfolio to bring the commodities allocation back to 5% of the total portfolio pending

the completion of Wilshire's new asset/liability study for the System. A copy of information regarding commodities rebalancing is filed as Exhibit 454-14.

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454-15 (A-6225). The Retirement Committee report consisted of items reported below at A-6226, A-6227 and A-6228, and of the following items:

- The Board was provided with a Quarterly Communication Update of TVARA chapter meetings attended during the first quarter of 2015. A copy of the Quarterly Communication Update is filed as Exhibit 454-15(a).
- The Board discussed certain issues related to an article on TVARS' 75<sup>th</sup> anniversary which was published on TVA Today for TVA employees and on the TVARS website and in the TVARA quarterly newsletter for TVA retirees.
- The Executive Secretary discussed with the Board an upcoming change on employee contributions to the Fixed and Variable Funds. In accordance with the TVARS Rules and Regulations, employees may elect to make contributions to the Fixed and Variable Funds from their compensation, which is defined under the TVARS Rules as their salary (straight-time pay) and any WPTIP award up to 6.25% of their salary, and not their total pay, which includes overtime and other types of lump-sum payments. This change will have no effect on employees' ability to contribute to the Fixed and Variable Funds up to \$10,000 per year or to make lump-sum contributions to the Funds up to one time per month. The Executive Secretary confirmed that notices of this change will be sent to affected employees by letter or e-mail. A copy of information on this matter is filed as Exhibit 454-15(b).
- Upon the recommendation of the Retirement Committee, the Board accepted the Report of Actuary on the Seventy-Fifth Actuarial Valuation of the TVA Retirement System prepared by Mercer as of September 30, 2014. Based on the Actuarial Valuation, TVA's required minimum contribution to TVARS for FY 2016 will be \$209 million. A copy of a letter from Réal Lamarche, Partner, Mercer, to the Board, dated March 4, 2015, and a copy of the System's Actuarial Valuation, are filed as Exhibit 454-15(c).
- On Thursday, March 5<sup>th</sup>, the Board discussed with Mercer the following topics: pension risk management, potential changes in actuarial mortality assumptions, and the need for a new, long-term funding policy study. A copy of Mercer's information on pension risk management is filed as Exhibit 454-15(d).

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454-16 (A-6226). Pursuant to the System's Administrative Claims and Appeals Procedures, the Board considered an appeal from a TVA retiree, [redacted], made on his behalf by his wife, [redacted], with power-of-attorney, requested that the Board grant his election for a second survivor benefit for his wife whom he married in 2003 based on the claim they were told they could have up to 10 years to make the election. After review and discussion of the appeal, because the System Rules require that second survivor elections be made within 90 days of the marriage or remarriage in retirement and because there was no corroborating evidence to support the claim, the Board voted to deny the appeal. A copy of the appeal materials is filed as Exhibit 454-16.

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454-17 (A-6227). 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 her a disability retirement. After review and discussion of the appeal, including the information from Advanced Medical Reviews, which serves as the medical review board for the System, because [redacted] could perform her normal job duties as of the date of her retirement, the Board determined that she was not disabled in accordance with the System Rules and voted to deny the appeal for a disability retirement. A copy of the disability retirement appeal materials is filed as Exhibit 454-17.

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454-18 (A-6228). The Board received information from Senior Counsel on his use of David Levine at Groom Law Group for outside counsel and legal advice and services related to plan qualification matters. In order to formalize the System's outside counsel arrangement with

Mr. Levine and Groom Law Group, the Executive Secretary and Senior Counsel requested the Board's approval to use Groom Law Group for outside counsel legal services. Upon the recommendation of the Retirement Committee, the Board approved the selection of Groom Law Group as outside legal counsel to the System with the following conditions: (i) notice to the Board of matters with cost exceeding \$5,000; (ii) cap of \$10,000 per matter with notice to the Board; (iii) annual total cap of \$25,000; and (iv) notice to the Board if Groom Law Group is to perform any work for TVA. A memo from the Senior Counsel and Executive Secretary regarding this request is filed as Exhibit 454-18.

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454-19 (A-6229). The Election Committee report consisted of the items reported below at A-6230 and A-6231, and of the following item:

- In accordance with the Director Election/Selection Policy, the Board was provided a copy of a notice for the TVA Retirees Association to publish requesting nominations for the position of 7<sup>th</sup> Director for a 3-year term beginning November 1, 2015.

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454-20 (A-6230). Upon the recommendation of the Election Committee, the Board voted 6 to 0 to approve the 2015 TVARS Election Schedule. Mr. Muzyn, whose seat is up for election, recused himself from the vote. A copy of the 2015 TVARS Election Schedule is filed as Exhibit 454-20.

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454-21 (A-6231). The Board discussed proposed changes to the Director Election/Selection Policy regarding a single candidate information form that would be posted on



only the TVARS website and proposed changes to the deadline date on Director nomination forms. No action was taken.

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454-22 (A-6232). The Audit Committee report consisted of the items reported below at A-6233 and A-6234, and of the following items:

- A scheduled meeting with Jennifer Allen of Crowe Horwath, LLP, the System's external auditor, to discuss the status of the fiscal year 2014 financial statement audit being performed by Crowe Horwath and the fiscal year 2014 annual report was rescheduled due to inclement weather.
- Prior to the meeting, the Board participated in a call with Gabriel, Roeder, Smith & Company on the preliminary results of their actuarial audit of the System's actuarial work.
- The Executive Secretary provided the Board with an update on the board of director fiduciary liability insurance policy from AIG in the process of being secured through Marsh & McLennan.
- In accordance with the Board's Ethics and Code of Conduct Policy, the Audit Committee confirmed that each Director is filing an annual financial disclosure report (OGE Form 450 or 450-A) with TVA's Designated Agency Ethics Official.
- 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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454-23 (A-6233). The Audit Committee discussed with the Board the preliminary 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. Because the Report on Agreed Upon Procedures was not

final, no action was taken. 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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454-24 (A-6234). A motion was made by Mr. Stokes to approve the following resolution, which he previously provided to the Board members for consideration:

The TVARS Board previously created a special committee to look at the System's governance and structure. After working with Jeanna Cullins of Hewitt EnnisKnupp on potential issues, benchmarking, and best practices in this area with respect to public retirement systems and boards, the Board's special committee engaged TVA in conversations regarding various options to address the independence of the System. Following these discussions, upon the recommendation of the Board's special committee, the System Board voted to request entering into a loaned employee arrangement with TVA for TVA employees working for the System. This request was made by the Executive Secretary on behalf of the System Board in January 2014. Over the next couple months, there were additional discussions on a loaned employee arrangement between System staff and TVA management, and a draft loaned employee agreement was worked on with TVA's OGC. However, in April 2014, the Executive Secretary was informed through TVA's management that TVA was not interested in entering into a loaned employee arrangement with the System Board for TVA employees to be loaned to the System.

Given the reasons set forth in the loaned employee request, the TVARS Board believes it is in the best interest of the System's members, retirees, and beneficiaries for the Board to move forward with improving the governance structure and independence of the System to avoid any potential conflicts of interest and divided loyalties and to pursue best practices among public retirement systems:

It is the intent of the TVARS Board for the System, as a Federal governmental entity and independent legal entity separate from TVA, to hire its own employees and establish its own personnel system separate from TVA. In order to effectuate this intent, the TVARS Board approves delegating to the Executive Secretary and his staff the authority to take any actions necessary to prepare for the TVARS Board and the Executive Secretary to administer the System independent of and separate from TVA. Specifically, these actions will include preparing the System to do the following: (i) hire its own employees, which will include working out any necessary details with the U.S. Office of Personnel Management regarding the Federal personnel status of TVARS employees, amending the TVARS Rules and Regulations and 401(k) Plan Provisions to include TVARS employees as participants, and entering into any necessary employee arrangements with current TVARS staff for employment by the System; (ii) acquiring appropriate office

space and equipment for use by the TVARS Board and employees in administering the System; (iii) procuring any other services appropriate and necessary for the TVARS Board and employees in administering the System; and (iv) providing a reasonable implementation and transition timeline for the TVARS Board.

The motion received a second from Mr. Muzyn. After discussion, the Board voted 4 to 3 to approve the resolution. Directors Hovious, Muzyn, Stokes and Troyani voted in favor of the resolution, and Directors Child, Hoskins, and Wilson voted against the resolution.

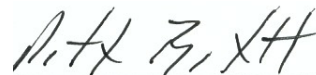
Director statements submitted regarding the vote

*Statement of Director Muzyn:*

I would like to thank Allen for proposing that the TVARS board state its intention for the system to hire its own personnel separate from TVA. I have been a proponent of increasing our system's independence for a long time. In January of 2007, with TVARS board approval, Randy Snyder and I took a crucial first step in that direction when we invited auditing firms to a pre-proposal conference to interest them in bidding to become the system's outside auditor. Prior to 2007, TVA's outside auditor also audited the system. A few years later, we obtained outside legal counsel to advise the board so the board would not have to rely on TVA's Office of General Counsel for outside legal advice. Still later, the system hired its own internal legal counsel. Allen's proposal is the next logical step in moving our system towards full independence, which is where I believe it belongs as a Federal governmental and independent legal entity separate from TVA.

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The meeting was adjourned at 1:11 p.m., EST.



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Executive Secretary



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Chair