

Meeting No. 455

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

June 19, 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, June 19, 2015, at 1:38 p.m., EDT, at the TVA Knoxville Office Complex, WT Plaza 407, 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 (via telephone); Chris Stinnett, Sr. Analyst, Investment & Risk Management; and Sally Weber, Lead Sr. Consultant, Retirement Benefits.

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455-1 Each director was notified in a memorandum dated May 18, 2015, of the regular quarterly meeting to be held on June 19, 2015. A copy of the notice from the Executive Secretary is filed as Exhibit 455-1.

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455-2 (A-6235). There were no items to report from the Chair.

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455-3 (A-6236). The Executive Secretary's report included the following:

- The Executive Secretary updated the Board on the status of the System's experience study being performed by Mercer Human Resource Consulting (Mercer), the System's actuary, which will be used to develop mortality table recommendations.
- The Executive Secretary notified the Board of the upcoming annual fiduciary and governance education on August 10th with the Board's consultant, Jeanna Cullins, Partner at Aon Hewitt Investment Consulting.

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455-4 (A-6237). Following 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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455-5 (A-6238). The Board noted its previous notational action on April 17, 2015, approving Mercer's statement of work to perform an updated analysis of the System's mortality experience. A copy of Mercer's statement of work for the experience study and the notational approval is filed as Exhibit 455-5.

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455-6 (A-6239). The Board noted its previous notational action approving the purchase of a fiduciary liability insurance policy from AIG with \$10 million in coverage, subject to a \$500,000 deductible, with no prior acts exclusions, for the Board and System staff. The fiduciary liability insurance policy was obtained by insurance broker Marsh & McLennan, carries an annual premium of [redacted], and is renewable on a year-to-year basis. A copy of the insurance policy quotes from AIG and the broker contract with Marsh is filed as Exhibit 455-6.

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455-7 (A-6240). The Board approved the minutes of Meeting No. 454 held March 6, 2015.

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455-8 (A-6241). The Board accepted the Treasurer's Report for the quarter ended March 31, 2015. A copy of the Treasurer's Report is filed as Exhibit 455-8.

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455-9 (A-6242). The Board accepted the Investment Performance Report prepared by Wilshire Associates (Wilshire) for the quarter ended March 31, 2015. A copy of the Investment Performance Report is filed as Exhibit 455-9.

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455-10 (A-6243). The Board accepted the report of retirements approved for the quarter ended March 31, 2015. A copy of the report and a summary demographic information regarding retirements in the quarter is filed as Exhibit 455-10.

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455-11 (A-6244). 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 ended March 31, 2015. A copy of the 401(k) Plan Investment Review is filed as Exhibit 455-11.

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455-12 (A-6245). The Investment Committee report consisted of the items reported below at A-6246 and A-6247, 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 March 31, 2015, is filed as Exhibit 455-12(a).

- The Board was provided and took note of information regarding the System's asset allocations as of March 31, 2015, including transfers, inflows and outflows during the first quarter of 2015. A copy of this information is filed as Exhibit 455-12(b).
- The Board was provided and took note of information on due diligence meetings between System staff and current investment managers, current service providers, and prospective investment managers during the first quarter of 2015. A copy of the information is filed as Exhibit 455-12(c).
- The Board was provided an update on the funded status of the System through March 31, 2015. A copy of the report is filed as Exhibit 455-12(d).
- The Board was provided and took note of quarterly analyses of 401(k) Plan investment options with respect to the Plan's watch list criteria from the System staff and Aon Hewitt Investing Consulting, (AHIC), the consultant for the 401(k) Plan. A copy of the 401(k) Fund Analysis from System staff and Quarterly 401(k) Plan Executive Summary Report from AHIC is filed as Exhibit 455-12(e).
- The Board was provided preliminary results of Wilshire's asset allocation study comparing the optimum portfolios for various risk policies taking into consideration constraints on certain asset classes within the portfolio. A copy of this information from Wilshire, dated June 19, 2015, is filed as Exhibit 455-12(f).
- The Board was provided excerpts from Wilshire's 2015 client conference session on the management of currency risk. A copy of this information from Wilshire is filed as Exhibit 455-12(g).
- The Executive Secretary notified the Board of an amendment to the investment guidelines of Lazard Asset Management which manages an international fixed income portfolio. The amendment allows Lazard to negotiate the terms of ISDA agreements on behalf of the System for the use of derivatives within the portfolio. A copy of the investment guideline amendment with Lazard is filed as Exhibit 455-12(h).

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455-13 (A-6246). On Thursday, June 18th, the Board met with John Flagel and Mark Manning of AHIC regarding fund options and fund investment vehicles for the new 401(k) Plan investment menu structure. After discussion, the Board approved the funds and the fund investment vehicles as outlined in AHIC's report with Option 1 for the U.S. large cap growth fund. The new 401(k) Plan investment menu will be communicated to plan participants at a later

date following notification to TVA and additional work on the implementation of the new investment menu. A copy of AHIC's Defined Contribution Plan Discussion Guide dated June 2015 is filed as Exhibit 455-13.

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455-14 (A-6247). Under the System's current asset allocation policy, ten percent (10%) of the System's assets are to be allocated to private equity. After working with Wilshire on evaluating various private equity investment models, the Board previously directed the System staff to obtain proposals from private equity advisors on a discretionary separate account approach administered through a fund-of-one structure. On Thursday, June 18th, the Board discussed proposals from the following firms: Adams Street Partners, Cambridge Associates, HarbourVest Partners, Mercer Private Markets, and Wilshire Private Markets. After consideration of the proposals, the Board approved the selection of HarbourVest Partners as the System's private equity advisor and delegated to the Executive Secretary the authority to take any actions necessary to implement the System's investment in the private equity fund-of-one structure with HarbourVest. A copy of (i) the memo from the Executive Secretary and Sr. Analyst, Investment & Risk Management, regarding the private equity advisor proposals, (ii) the private equity advisor proposals and presentations, and (iii) Wilshire's proposed pacing analysis for private equity investments over a 10-year period, is filed as Exhibit 455-14.

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455-15 (A-6248). The Retirement Committee report consisted of items reported below at A-6249, A-6250, and A-6251, and of the following items:

- The Board was provided with a Quarterly Communication Update providing the TVA Retirees Association meetings attended during the second quarter of 2015. A copy of the Quarterly Communication Update is filed as Exhibit 455-15(a).

- The Board was provided information previously developed by Mercer on various lump-sum options for TVARS in order to provide the opportunity to certain participants to cash-out their retirement benefit and reduce risk to the System. A copy of Mercer's letter to the Executive Secretary dated July 9, 2013, on TVARS lump-sum options and data on retirees with small monthly retirement benefit amounts is filed as Exhibit 455-15(b).
- The Board was provided information on the data that will need to be provided to Mercer in order to conduct a new, long-term forecasting study to be used by the Board in making contribution recommendations.

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455-16 (A-6249). Upon the recommendation of the Retirement Committee, the Board accepted the actuarial valuation of the Variable Annuity Fund as of September 30, 2014, by Mercer, and its recommendation that the outstanding variable units should be increased by 104,355. The increase in number of units will result in a decrease in the unit value and will be applied beginning with the July 2015 payroll. A copy of a letter from Réal Lemarche, Partner, Mercer, to the Board, and the TVA Retirement System Variable Annuity Valuation Report as of September 30, 2014, is filed as Exhibit 455-16.

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455-17 (A-6250). The Board discussed the System's current long-term funding policy, which is based on the results of the Long Term Funding Policy Study for the System (Funding Study) performed by Mercer and which was approved by the Board in July 2013. The current long-term funding policy sets a funding target of 100% with a confidence level of 60-70% over a 20-year time period. After further discussion among the Board members of various contribution proposals, a motion was made by Mr. Stokes to recommend to TVA a \$350 million contribution to the System for fiscal year 2016. According to the Funding Study, a flat-rate contribution of \$350 million per year would produce a 64% confidence level of the System being 100% funded over a 20 year period. The motion received a second from Mr. Troyani and was approved by a

vote of 4 to 3. Directors Hovious, Muzyn, Stokes, and Troyani voted to approve the motion, and Directors Child, Hoskins, and Wilson voted against the motion. In accordance with the System's Rules and Regulations (Rules), this recommended contribution of \$350 million for fiscal year 2016, along with the required minimum contribution of \$209 million for fiscal year 2016 as calculated by Mercer under the Rules, will be presented to TVA for consideration. A copy of Mercer's Funding Study is filed as Exhibit 455-17.

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455-18 (A-6251). Pursuant to the System's Administrative Claims and Appeals Procedures, the Board considered an appeal from recent retiree [redacted] who is requesting that he be allowed to name a trust for his sister as the beneficiary for a continuing monthly survivor benefit. Based on the information presented, the Board determined that, while monthly retirement benefits or monthly survivor benefits may be directed to be paid to a trust, a trust cannot be named as a survivor beneficiary for, and be used in the calculation of, continuing monthly benefits. Accordingly, the Board voted to deny the appeal. A copy of the appeal materials is filed as Exhibit 455-18.

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455-19 (A-6252). The Election Committee report consisted of the item reported below at A-6253 and of the following item:

- The Board was provided an update on the 2015 TVARS election.
- The Board was provided an update on the process for the Board's selection of the 7th Director. Mr. Stokes' term as 7th Director ends October 31, 2015, and the Executive Secretary is currently receiving requests of interest from potential candidates.

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455-20 (A-6253). Upon the recommendation of the Election Committee, the Board approved by a 6 to 0 vote amendments to the TVARS Director Election/Selection Policy recognizing the combination of election candidate information into one form and the removal of references to posting candidate information on TVA bulletin boards. Mr. Muzyn, who is running for re-election, abstained from the vote. A copy of the TVARS Director Election/Selection Policy with amendments is filed as Exhibit 455-20.

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455-21 (A-6254). The Audit Committee report consisted of the items reported below at A-6255, A-6256, and A-6257, and of the following items:

- The Executive Secretary informed the Board that the fiduciary liability insurance policy with AIG went into effect on May 20, 2015.
- The Board was provided for review proposed charters for each Board committee and proposed amended and restated System bylaws. No action was taken.
- 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 and took note of the Board's travel expenses for the previous quarter.

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455-22 (A-6255). 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 performed 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 2014 is filed as Exhibit 455-22.

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455-23 (A-6256). Upon the recommendation of the Audit Committee, the Board voted to approve, and authorized the Executive Secretary to execute, an engagement letter with Crowe Horwath to perform the fiscal year 2015 financial statement audits of the System and the 401(k) Plan. A copy of the engagement letter between Crowe Horwath and the System is filed as Exhibit 455-23.

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455-24 (A-6257). On June 19th, via teleconference, the Board discussed with Lawrence F. Wilson, A.S.A., Senior Consultant and Actuary with Gabriel Roeder Smith & Company, the results of Gabriel Roeder's audit of Mercer's actuarial valuation for the System. Pursuant to the audit, Gabriel Roeder replicated the key financial results of Mercer's actuarial valuation of the System as of September 30, 2013, and the audit found no material differences in the valuation results. The Board discussed with Mr. Wilson the analysis as well as several recommendations by Gabriel Roeder and reviewed and discussed Mercer's and the TVARS staff's responses to Gabriel Roeder's findings in the actuarial audit. Upon the recommendation of the Audit Committee, the Board accepted Gabriel Roeder's Actuarial Review of the September 30, 2013 Actuarial Valuation of the TVA Retirement System, dated April 29, 2015. A copy of Gabriel Roeder's Actuarial Review, as well as the responses to the findings from the Actuarial Review by the TVARS staff and Mercer, is filed as Exhibit 455-24.

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455-25. The Executive Secretary updated the Board on internal negotiations with TVA on a loaned employee arrangement for TVA employees who perform services for the System and provided the Board for review the current draft of a loaned employee agreement, which the Executive Secretary has been informed is acceptable to TVA. After discussion among the Board

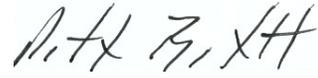
members, two requested changes to the loaned employee agreement were agreed upon: (i) clarification around TVARS staff who are represented employees, and (ii) additional language that loaned employees are beneficiaries of the rights under the agreement in addition to TVA and TVARS. These requested changes will be presented by the Executive Secretary and Senior Counsel to TVA for approval. Following this discussion, the Board voted 6 to 1 to enter into the loaned employee agreement with TVA, subject to the additional of the requested changes. Directors Child, Hovious, Muzyn, Stokes, Troyani, and Wilson voted in favor of the approval, and Director Hoskins voted against the approval. A copy of the loaned employee agreement is filed as Exhibit 455-25.

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455-26. As a part of the discussion around the loaned employee agreement, certain questions regarding the level of the System's protection of member data and accounts and other sensitive data of the System were discussed. In response to these questions, the Chair, with the Board's consent, established a special ad hoc committee to oversee the performance of due diligence on the System's security and protection of critical cyber assets with a goal of reporting back to the entire Board, including any recommendations, at the Board's December 2015 quarterly meeting. Directors Hoskins, Stokes, and Troyani were selected as the members of this cyber-security special committee.

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The meeting was adjourned at 1:53 p.m., EDT.



Executive Secretary



Chair