

Meeting No. 449

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

June 20, 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, June 20, 2014, at 3:08 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; and Chris Stinnett, Sr. Analyst, Investment & Risk Management.

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449-1 Each director was notified in a memorandum dated May 19, 2014, of the regular quarterly meeting to be held on June 20, 2014. A copy of the notice from the Executive Secretary is filed as Exhibit 449-1.

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449-2 (A-6133). There were no items to report from the Chair.

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449-3 (A-6134). The Executive Secretary informed the Board that he is working to schedule a meeting with Mercer in July regarding the System's long-term funding policy and the Board's recommended contribution to TVA for fiscal year 2015.

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449-4 (A-6135). The Legal Counsel's update included the following:

- On June 19, 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.

- Senior Counsel informed the Board that the System has received information requests from the IRS as a part of its review of the System's determination letter applications for the System and the 401(k) Plan, and that he will be responding to those information requests.

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449-5 (A-6136). The Board approved the minutes of Meeting No. 447 held March 14, 2014.

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449-6 (A-6137). The Board approved the minutes of Special Meeting No. 448 held April 11, 2014.

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449-7 (A-6138). The Board accepted the Treasurer's Report for the quarter ending March 31, 2014. A copy of the Treasurer's Report is filed as Exhibit 449-7. This report is available for review at the Retirement System Office.

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449-8 (A-6139). The Board accepted the Investment Performance Report prepared by Wilshire Associates (Wilshire) for the quarter ending March 31, 2014. A copy of the Investment Performance Report is filed as Exhibit 449-8. This report is available for review at the Retirement System Office.

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449-9 (A-6140). The Board accepted the report of retirements approved for the quarter ending March 31, 2014. A copy of the report and a copy of summary demographic information regarding retirements in the quarter are filed as Exhibit 449-9. These reports contain information on individual cases and are not available for review.

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449-10 (A-6141). 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 March 31, 2014. A copy of the 401(k) Plan Investment Review is filed as Exhibit 449-10. This report is available for review at the Retirement System Office.

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449-11 (A-6142). The Investment Committee report consisted of the items reported below at A-6143 and A-6144, 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, 2014, is filed as Exhibit 449-11(a).

- The Board was provided and took note of information regarding investment manager asset transfers fiscal year-to-date, including fiscal year projected rebalancing and funding transactions. A copy of this information is filed as Exhibit 449-11(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 first quarter of 2014. A copy of the information is filed as Exhibit 449-11(c).
- 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 449-11(d).
- The Board was provided information on personnel changes at MacKay Shields, a current high-yield fixed income investment manager of the System. A copy of this information is filed as Exhibit 449-11(e).
- The Board was provided and took note of a report on the status of the System's risk 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 449-11(f).
- The Board was provided an update on the funded status of the System through April 30, 2014. A copy of the report is filed as Exhibit 449-11(g).

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449-12 (A-6143). The Board was provided information on BNY Mellon's securities lending program and historical information regarding the System's past securities lending and performance. After discussion, the Board requested additional information regarding BNY Mellon's securities lending program and took no action. A copy of this information regarding securities lending is filed as Exhibit 449-12.

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449-13 (A-6144). The Board was provided information on a new private real estate fund being raised by Kennedy Wilson, a current manager of the System. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved committing \$25 million to the Kennedy Wilson Real Estate Fund V ("KW Fund V") with the first close in late June 2014. A copy of memo from Wilshire regarding Kennedy Wilson, the System's investments with Kennedy Wilson, KW Fund V, and the System's policy allocation to private real assets is filed as Exhibit 449-13.

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449-14 (A-6145). The Retirement Committee report consisted of items reported below at A-6146, A-6147, A-6148 and A-6149, and of the following items:

- The Board was provided with a Quarterly Communication Update providing the communication initiatives implemented during the second quarter of 2014. A copy of the Quarterly Communication Update is filed as Exhibit 449-14(a).
- The Board was updated on the status of the closure of five funds in the 401(k) Plan investment menu – Mutual Shares Fund Class Z, Royce Low-Priced Stock Fund Investment Class, Wells Fargo Advantage Small Cap Value fund Institutional Class, Perkins Mid Cap Value Fund Class N, and Janus Overseas Fund Class N – the mapping of assets in these funds to the participants’ age-appropriate target-date fund. A copy of Fidelity’s confirmation of the closure and mapping of these funds, dated June 16, 2014, is filed as Exhibit 449-14(b).
- After discussion, the Board approved Fidelity setting up and administering the on-line designation of beneficiaries for the 401(k) Plan, authorized Fidelity’s services for the conversion of all current paper beneficiary designations to electronic format, and delegated to the Executive Secretary the authority to take any actions necessary to implement on-line beneficiary designations with Fidelity for the 401(k) Plan. A copy of a letter from Fidelity, dated May 15, 2014, regarding these administrative services is filed as Exhibit 449-14(c).
- The Board was provided information from Fidelity on its commitment to information security for the 401(k) Plan and 401(k) Plan participants. A copy of this Fidelity security information is filed as Exhibit 449-14(d).
- At the request of Mr. Muzyn, the Board discussed certain Board members’ concerns regarding the System’s long-term funding policy.

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449-15 (A-6146). Following the discussion of additional information regarding the 401(k) Plan consultant proposals and services, the Board reaffirmed its previous approval selecting Hewitt EnnisKnupp as the consultant for the 401(k) Plan (see Minute Entry 443-16) and authorized the Executive Secretary to take any actions necessary regarding the consulting services. A copy of a memo from the Executive Secretary to the Board, dated June 6, 2014, regarding the 401(k) Plan consultant process and proposals is filed as Exhibit 449-15.

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449-16 (A-6147). This report contains information on an individual case and is not available for review.

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449-17 (A-6148). This report contains information on an individual case and is not available for review.

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449-18 (A-6149). After discussion, and upon the recommendation of the Retirement Committee, the Board approved the following resolution regarding the crediting of lump-sum payments under TVA's Winning Performance Team Incentive Plan (WPTIP) for purposes of retirement benefit calculations and matching contributions under the 401(k) Plan:

WHEREAS, under the Rules and Regulations and the 401(k) Plan Provisions, the definition of earnable compensation includes that lump-sum payments of up to 6.25 percent of regular salary or wages (excluding any overtime pay adjustments), as approved by TVA, under the TVA Winning Performance Team Incentive Plan (WPTIP) be counted for the purposes of calculating pension benefits from the System and TVA's matching contributions to the 401(k) Plan; and

WHEREAS, the Rules and Regulations and the 401(k) Plan Provisions are silent as to the method and timing of the crediting of such WPTIP payments under the plans, and the Board desires to credit these payments in an administratively feasible method;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby establishes that, for purposes of earnable compensation under the Rules and Regulations and 401(k) Plan Provisions, WPTIP payments become effective January 1<sup>st</sup> following the payment date beginning with WPTIP payments made in FY 2015 for FY 2014 as well as all future payments for future fiscal years.

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449-19 (A-6150). The Election Committee report consisted of the item reported below at A-6151 and of the following item:

- The Board was provided information regarding an alternate election process allowed under the System Rules when there are more than two nominees involving ranked voting. The Board discussed and took no action. A copy of information regarding ranked voting is filed as Exhibit 449-19.

449-20 (A-6151). Upon the recommendation of the Election Committee, the Board approved the 2014 TVARS Election Schedule. A copy of the 2014 TVARS Election Schedule is filed as Exhibit 449-20.

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449-21 (A-6152). The Audit Committee report consisted of the items reported below at A-6153, A-6154, and A-6155, and of the following items:

- The Board was provided and took note of an updated list of educational conferences specifically for similar types of board trustees. A copy of this information is filed as Exhibit 449-21(a).
- Pursuant to the Board's self-evaluation and Executive Secretary evaluation policies, the Board was provided information and forms for performing these reviews for fiscal years 2013 and 2014 at an upcoming meeting with the assistance of Hewitt EnnisKnupp, the Board's governance consultant. A copy of these policies and forms are filed as Exhibit 449-21(b).

- The Executive Secretary updated the Board on TVA's response to the Board's previous request to enter into a loaned employee arrangement for TVA employees who perform services for the System.
- 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 System Board's travel expenses for the previous quarter.

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449-22 (A-6153). 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 2014 financial statement audits of the System and the 401(k) Plan. A copy of a memo from the Executive Secretary to the Board regarding Crowe Horwath's contract and a copy of the engagement letter between Crowe Horwath and the System are filed as Exhibit 449-22.

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449-23 (A-6154). In response to an RFP for SOC 1 audit services, the System received proposals from four accounting firms, which were evaluated by the System staff and Audit Committee. Following a discussion of the RFP evaluation results, and 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 System's SOC 1 audit beginning in 2015. A copy of a memo from the Executive Secretary to the Board regarding the RFP evaluation and the proposals from the four accounting firms are filed as Exhibit 449-23.

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449-24 (A-6155). On June 19<sup>th</sup>, the Board heard a presentation regarding fiduciary liability insurance options and potential pricing from Katherine Henry with Bradley Arant Boult Cummings and Malucha Millet with Marsh & McLennan. After discussion, the Board agreed to have Ms. Henry and Mr. Millet move forward with receiving quotes on various levels of fiduciary liability insurance coverage for the Board and System staff and to report back on this information to the Board at a future meeting.

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449-25. This report contains information on an individual case and is not available for review..

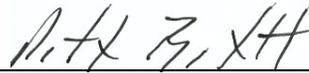
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449-26. A motion was made by Mr. Muzyn for the Board to approve the following: (i) a new long-term funding policy where the annual contribution recommendation would be equal to normal cost plus a seven-year amortization of the underfunded liability identical to minimum funding rules applicable to plans subject to ERISA and the Pension Protection Act, and (ii) a contribution recommendation to TVA for fiscal year 2015 of \$715 million based on this funding policy. The motion received a second from Mr. Hovious. Before the vote, an intervening motion was made by Ms. Wilson to table the vote on this motion until the Board meets with Mercer to

work on and develop a recommended contribution to TVA for fiscal year 2015. The motion to table the vote received a second from Mr. Child. The motion to table the vote was approved 4 to 3. Directors Child, Hoskins, Stokes and Wilson voted in favor of the motion to table, and Directors Hovious, Muzyn and Troyani voted against the motion to table.

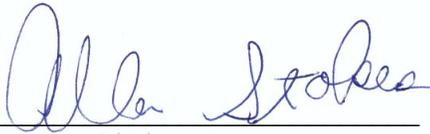
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The meeting was adjourned at 3:25 p.m., EDT.



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Executive Secretary



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Chair