

MINUTES OF MEETING  
OF THE BOARD OF DIRECTORS

RETIREMENT SYSTEM OF THE TENNESSEE VALLEY AUTHORITY

September 12, 2013

(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 Thursday, September 12, at 12:10 p.m., EDT, at the Chattanooga Hotel, 1201 Broad Street, Chattanooga Tennessee.

\* \* \*

The following directors were present: Leslie P. Bays, Chair; Allen E. Stokes, Vice-Chair; John M. Hoskins; Leonard J. Muzyn; and Anthony L. Troyani. Also present were Patrick D. Brackett, Executive Secretary; Pamela K. Ramsey, Assistant Secretary; W. Colby Carter, Internal Legal Counsel, Chris Christie, Bradley Arant Boult Cummings, External Legal Counsel, and Eric J. Davis, Program Manager, Investment and Risk Management. Directors Peyton T. Hairston Jr. and Tammy W. Wilson were not present.

\* \* \*

445-1 Each director was notified in an e-mail dated August 20, 2013, of the regular quarterly meeting to be held on September 12, 2013. A copy of the notice from the Executive Secretary is filed as Exhibit 445-1.

\* \* \*

445-2 (A-6057). The Chair noted that his term ends October 31, 2013 and that this would be his last regular quarterly board meeting. The Chair also noted that the TVARS Board recommended to TVA for fiscal year 2014 a contribution to the System of \$285 million and that the TVA Board approved a contribution of \$250 million for fiscal year 2014.

\* \* \*

445-3 (A-6058). The Executive Secretary had nothing to report.

\* \* \*

445-4 (A-6059). The Legal Counsel's update included the following:

- Internal Legal Counsel informed the Board that new favorable determination letters were received from the IRS for both the TVA Retirement System and the 401(k) plan.

Counsel noted that the process took 4-1/2 years and applications to request new determination letters would be filed by January 30, 2014.

- Prior to the Board meeting, Bradley Arant Boult Cummings, outside fiduciary and litigation counsel representing the System in the current lawsuit against TVA and the System, met with the Board on issues regarding the lawsuit.

\* \* \*

445-5 (A-6060). The Board noted its previous notational action approving Mercer's Statement of Work to provide actuarial services related to the System's experience study and recommendation of new actuarial assumptions. 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 445-5.

\* \* \*

445-6 (A-6061). The Board approved the minutes of Meeting No. 444 held July 19, 2013 with a statement by director Muzyn to be included as an attachment to these minutes.

\* \* \*

445-7 (A-6062). The Board accepted the Treasurer's Report for the quarter ending June 30, 2013. A copy of the Treasurer's Report is filed as Exhibit 445-7.

\* \* \*

445-8 (A-6063). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ending June 30, 2013. A copy of the Investment Performance Report is filed as Exhibit 445-8. This report is available for review at the Retirement Services office.

\* \* \*

445-9 (A-6064). The Board accepted the report of retirements approved for the quarter ending June 30, 2013. A copy of the report and a copy of summary demographic information regarding retirements in the quarter are filed as Exhibit 445-9. These reports contain information on individual cases and are not available for review.

\* \* \*

445-10 (A-6065). 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 June 30, 2013. A copy of the 401(k) Plan Investment Review is filed as Exhibit 445-10. This report is available for review at the Retirement Services office. This report is available for review at the Retirement Services office.

\* \* \*

445-11 (A-6066). The Investment Committee report consisted of the items reported below at A-6067, A-6068 and A-6069, 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 June 30, 2013, is filed as Exhibit 445-11(a).
- The Board was provided and took note of information regarding investment manager asset transfers during the second quarter of 2013. A copy of this information is filed as Exhibit 445-11(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 second quarter of 2013. A copy of the information is filed as Exhibit 445-11(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 445-11(d).
- The Board was provided and took note of a staff report on quarterly economic indicators. A copy of the report is filed as Exhibit 445-11(e).
- The Board was provided and took note of a staff report on the counterparty risk policies of the System's external money managers. A copy of the report is filed as Exhibit 445-11(f).
- The Board was provided a report analyzing trading costs of the System's external managers. Zeno Consulting Group performed the analysis and presented the results. A copy of the analysis is filed as Exhibit 445-11(g).
- The Board was provided and took note of a report giving 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 445-11(h).
- The Board was provided an update on the funded status of the System through August 23, 2013. A copy of the report is filed as Exhibit 445-11(i).
- The Board was provided and took note of a staff report on managing volatility. A copy of the report is filed as Exhibit 445-11(j).
- After discussion and upon the recommendation of Wilshire and the Investment Committee, the Board voted to terminate its active currency strategy with Mellon Capital Management and delegated to the Executive Secretary the authority to exit the

strategy by allowing all current contracts within the strategy to expire in December 2013.

\* \* \*

445-12 (A-6067). Under the System's asset allocation policy, 5% of the System's assets will be allocated to commodities. On August 16, 2013, the Board met with two prospective commodities managers: Wellington Management Company, LLP, a current investment manager of the System, and CoreCommodity Management, LLC. After discussion, and upon the recommendation of Wilshire and the Investment Committee, the Board approved investing 65% of the allocation (or approximately \$235 million) with CoreCommodity, and 35% of the allocation (or approximately \$125 million) with Wellington. 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 commodity portfolios and have recommended that the System Board designate and select CoreCommodity, LLC (CoreCommodity) and Wellington Management Company, LLP (Wellington) 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 CoreCommodity and Wellington 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 with CoreCommodity 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 CoreCommodity and Wellington.

A copy of a report from Wilshire on the commodity manager search, dated August 16, 2013, is filed as Exhibit 445-12.

\* \* \*

445-13 (A-6068). Wilshire presented to the Board for its consideration information regarding certain potential changes to the current asset allocation policy mix. The Board approved a new policy on page 12 of Wilshire's asset allocation analysis with an expected return of 7.21% and expected standard deviation of 10.23%, resulting in a policy allocation of: 31.7% global public equity; 10% private equity; 5% low volatility equity; 28.3% fixed income, including a new 5% allocation to Emerging Market fixed income; 15% public real assets; and 10% private real assets. The Board also reviewed the current Investment Policy Statement, including the current re-balancing bands. The Board requested that a revised Investment Policy

Statement be presented for approval at the next quarterly meeting. A copy of the Wilshire presentation is filed as Exhibit 445-13.

\* \* \*

445-14 (A-6069). 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 Bridgewater Associates (Bridgewater), a current investment manager of the System, to reduce the weighting of France in the customized Barclay's World Government Inflation Linked Bond Index, and, correspondingly the holdings in the Bridgewater portfolio. The new customized benchmark would be weighted as follows: Australia 3%; Canada 10%; France 10%; Germany 7%; UK 20%; Sweden 5%; and United States 45%. A copy of the information presented by Wilshire is filed as Exhibit 445-14.

\* \* \*

445-15 (A-6070). The Retirement Committee report consisted of items reported below at A-6071, A-6072, A-6073 and A-6074, and of the following items:

- The Board was provided with a Quarterly Communication Update providing the communication initiatives implemented during the fourth quarter of fiscal year 2013. A copy of the Quarterly Communication Update is filed as Exhibit 445-15(a).
- The Board was provided an update on contract negotiations with Hewitt EnnisKnupp to provide 401(k) consulting services, and additional pricing information for customized Target Date funds.
- The Board was provided a budget for the System for fiscal year 2014. A copy of the information is filed as Exhibit 445-15(b).
- The Board was provided an update on the Plus project, a PeopleSoft product which TVA has purchased to provide various administrative services, and the System is participating in to provide monthly retiree benefit payments.

\* \* \*

445-16 (A-6071). Upon the recommendation of the Retirement Committee, the Board accepted the actuarial valuation of the Variable Annuity Fund as of March 31, 2013, by Mercer, and its recommendation that the outstanding variable units should be increased by 42,611. The increase in number of units will result in a slight decrease in the unit value and will be applied beginning with the December 2013 payroll. A copy of a letter from Real Lemarche, Partner, Mercer, to the Board, and a copy of the TVA Retirement System Variable Annuity Valuation Report as of March 31, 2013, are filed as Exhibit 445-16.

\* \* \*

445-17 (A-6072). Upon the recommendation of the Retirement Committee, the Board accepted the results of the experience study performed by the System's actuary, Mercer, and

required by the System's Rules every 5 years. A copy of the experience study results for the period October 1, 2007 through September 30, 2012 is filed as Exhibit 445-17. This report is available for review at the Retirement Services office.

\* \* \*

445-18 (A-6073). Upon the recommendation of the Retirement Committee and the System's actuary, Mercer, and, based on the System's experience study, the Board voted to approve changes to actuarial assumptions used in the valuation of the System's liability and benefit calculations. An implementation date for new actuarial factors was discussed and will be decided at a later date. A copy Mercer's presentation and recommended changes to actuarial assumptions is filed as Exhibit 445-18.

\* \* \*

445-19 (A-6074). The Board discussed an actuarial audit contract with Gabriel, Roeder, Smith & Company. No action was taken.

\* \* \*

445-20 (A-6075). The Election Committee report consisted of the item reported below at A-6076.

\* \* \*

445-21 (A-6076). The Election Committee presented, and the Board accepted, the results of the election that ended August 28, 2013. James W. Hovious received 51.7% of the votes to win election to the System Board for a three year term from November 1, 2013, through October 31, 2016. Overall voter participation exceeded 40% of employees. A copy of the memorandum from the Executive Secretary, dated August 30, 2013, along with certified election results from VR Election Services, is filed as Exhibit 445.21.

\* \* \*

445-22 (A-6077). The Audit Committee report consisted of the items reported below at A-6078, A-6079, and A-6080, and of the following items:

- The Board was provided a draft request for proposal (RFP) for audit services for the System's Service Organization Control Type 1 (SOC 1) audit for 2015. Planned issue date for the RFP is March 2014. A copy of the draft RFP is filed as Exhibit 445-22(a).
- The Board received an update from its external legal Counsel, Bradley Arant Boult Cummings, regarding current litigation.
- The Board was provided and took note of a summary of charges on the System's credit card for the previous quarter. This information is filed as Exhibit 445-22(b).

- The Board was provided and took note of the System Board's travel expenses for the previous quarter. This information is filed as Exhibit 445-22(c).

\* \* \*

445-23 (A-6078). Upon the recommendation of the Audit Committee, the Board voted to approve, and authorized the Executive Secretary to execute, a contract with E.H. Johnson & Company, P.C., to perform the System's SOC 1 audit for the period August 1, 2013 through July 31, 2014. A SOC 1 report is a report on controls at a service organization which are relevant to user entities' internal control over financial reporting. A copy of a memo from the Executive Secretary to the Board and a copy of the draft contract between E.H. Johnson & Company, P.C. and the System are filed as Exhibit 445-23.

\* \* \*

445-24 (A-6079). Upon the recommendation of the Audit Committee, the Board voted to approve, and authorized the Executive Secretary to execute, a contract with E.H. Johnson & Company, P.C., to perform the System's Agreed Upon Procedures audit for fiscal year 2013. The Agreed Upon Procedures audit includes tests relied upon by the System's external auditor, Crowe Horwath, in their year-end financial statement audit. A copy of a memo from the Executive Secretary to the Board and a copy of the draft contract between E.H. Johnson & Company, P.C. and the System are filed as Exhibit 445-24.

\* \* \*

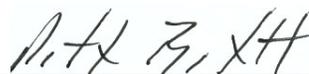
445-25 (A-6080). The Board discussed a draft Succession Planning Policy. No action was taken.

\* \* \*

445-26 (A-6081). The Board discussed a memorandum from its governance consultant, Jeanna Cullins, Partner with Hewitt EnnisKnupp, concerning the governance and administration of TVARS. No action was taken. A copy of the memorandum is filed as Exhibit 445-26.

\* \* \*

The meeting was adjourned at 12:34 p.m., EDT.



Executive Secretary



Chair