

Meeting No. 473

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

March 29, 2018

[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 Thursday, March 29, 2018, at 1:16 p.m., EDT, at the TVA Knoxville Office Complex, WT Plaza 404, Knoxville, Tennessee.

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The following directors were present: Wilson Taylor III, Vice-Chair; Samuel J. DeLay; James W. Hovious; Leonard J. Muzyn; Allen E. Stokes; and Tammy W. Wilson. Brian M. Child, Chair, was not present. Also present were Patrick D. Brackett, Executive Secretary; William B. Jenkins, Jr., Assistant Secretary; Sally R. Weber, Manager, Retirement Operations; Veenita Bisaria, Manager, Investment & Risk Management; Chris A. Stinnett, Sr. Analyst, Investment & Risk Management; and W. Colby Carter, Senior Counsel.

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473-1 Each director was notified in a memorandum dated March 16, 2018, of the regular quarterly meeting to be held on March 29, 2018. A copy of the notice from the Executive Secretary is filed as Exhibit 473-1.

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473-2 (A-6494). There were no items to report from the Vice-Chair.

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473-3 (A-6495). The Executive Secretary's report included the following:

- The Executive Secretary informed the Board that the June quarterly meeting date will be re-scheduled due to conflicts for at least three Directors.
- The Executive Secretary discussed with the Board the effect of recent market volatility on the assets of the System and fiscal year-to-date investment returns. A copy of this information is filed as Exhibit 473-3.

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473-4 (A-6496). The legal update included the following:

- Senior Counsel informed the Board that on March 16, 2018, the Sixth Circuit Court of Appeals ruled in favor of the System and TVA on the remaining issues in the lawsuit. Following this ruling, the remaining rights for the plaintiffs would be to request a rehearing by the full Sixth Circuit panel of judges or petitioning the U.S. Supreme Court. A copy of the Sixth Circuit opinion and an email from Edmund Sauer, Partner, Bradley Arant Boult Cummings, on the opinion, was provided to the Board and copies are attached as Exhibit 473-4.
- Senior Counsel provided an update to the Board on the System's private letter ruling request before the IRS regarding the proposed amendments to provide election options for System members with cash balance accounts.

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473-5 (A-6497). The Board approved the minutes of Special-Called Meeting No. 470 held October 30, 2017, by a vote of 5 to 0 with Director DeLay abstaining.

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473-6 (A-6498). The Board approved the minutes of Meeting No. 471 held December 4, 2017.

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473-7 (A-6499). The Board approved the minutes of Special-Called Meeting No. 472 held January 23, 2017.

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473-8 (A-6500). The Board accepted the Treasurer's Report for the quarter ended December 31, 2017. A copy of the Treasurer's Report is filed as Exhibit 473-8.

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473-9 (A-6501). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ended December 31, 2017. A copy of the Investment Performance Report is filed as Exhibit 473-9.

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473-10 (A-6502). The Board accepted the report of retirements approved for the quarter ended December 31, 2017. A copy of the report is filed as Exhibit 473-10.

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473-11 (A-6503). The Board accepted the quarterly review for the TVA Savings and Deferral Retirement Plan (401(k) Plan) prepared by Fidelity Investment Institutional Services Company (Fidelity) for the quarter ended December 31, 2017. A copy of the 401(k) Plan quarterly review is filed as Exhibit 473-11.

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473-12 (A-6504). The Investment Committee report consisted of the items reported below at A-6505 and A-6506, 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, 2017, is filed as Exhibit 473-12(a).
- The Board was provided and took note of information regarding investment manager asset transfers during the fourth quarter of 2017. A copy of this information is filed as Exhibit 473-12(b).
- The Board was provided and took note of information on due diligence meetings and conference calls between System staff and investment managers and service providers for the period November 2017 through March 2018. A copy of the information is filed as Exhibit 473-12(c).

- The Board was provided an update on the funded status of the System through December 31, 2017. A copy of the report is filed as Exhibit 473-12(d).
- The Board was provided the quarterly 401(k) Plan Discussion Guide from Aon covering the following: asset allocation and quarterly flows, performance of the investment funds in the 401(k) Plan's lineup, manager and fee updates, and a review of target-date funds and the Target Retirement Portfolios. On February 23, 2018, the Investment Committee met with Aon and the System staff to review the quarterly 401(k) Plan Discussion Guide. A copy of the Guide is filed as Exhibit 473-12(e).
- The Board was provided and discussed with Wilshire and System investment staff information on several investment managers and their portfolios and strategies. A copy of this Investment Manager Product Discussion List is filed as Exhibit 473-12(f).
- The Board was provided and took note of net internal rate of return (net IRR) performance information as of September 30, 2017, 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 the report from Wilshire is filed as Exhibit 473-12(g).
- The Board was provided an update on Wilshire's 10-year forward-looking capital market assumptions and the investment characteristics of the System's current asset allocation policy and proposed future asset allocation glide path based on Wilshire's new capital market assumptions. A copy of this information from Wilshire is filed as Exhibit 473-12(h).
- On February 23, 2018, the Investment Committee and System staff met with Wilshire's Private Markets consultants on proposed strategic plans for the implementation of the System's private credit and private real assets investment portfolios. A copy of the information discussed with Wilshire was provided to the Board and is filed as Exhibit 473-12(i).
- The Board was provided notice of investment guideline changes for the global low-volatility equity portfolio managed by Acadian Asset Management, the Treasury Inflation Protected Securities (TIPS) portfolio managed by Bridgewater Associates, and the large-cap and small-cap U.S. domestic equity portfolios managed by Pacific Investment Management Company (PIMCO). A copy of the amended guidelines notice for the quarter is filed as Exhibit 473-12(j).
- The Board was notified of a reduction in the fees for the managed account service for participants whose accounts are managed by Strategic Advisers within the 401(k) Plan effective March 25, 2018. A copy of the memo from the Executive Secretary and Manager, Investments & Risk Management regarding the fee reduction, and the

new Exhibit A, Fees for Managed Account Service, to the Trust Agreement with Fidelity, is filed as Exhibit 473-12(k).

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473-13 (A-6505). On February 23, 2018, the Investment Committee met and discussed with Wilshire and the System investment staff reallocation of the System's fixed income portfolio to the new asset allocation strategy and weights for the safety-oriented fixed income and opportunistic fixed income buckets. As a part of implementing this strategy, upon the recommendation of Wilshire and the Investment Committee, the Board approved the termination of Guggenheim Partners as an investment manager of the System and the reallocation of the assets in its portfolio to the System's core fixed income managers, TCW, Western Asset Management (WAMCO), and Prudential. A copy of a memo from Wilshire to the Board with this analysis, dated February 23, 2018, is filed as Exhibit 473-13.

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473-14 (A-6506). As a part of the same discussion and implementing action set forth in Minute Entry 473-13 above, upon the recommendation of Wilshire and the Investment Committee, the Board approved the termination of the investment mandate and portfolio managed by Stone Harbor Investment Partners and the reallocation of the assets in its portfolio to the System's core fixed income managers, TCW, Western Asset Management (WAMCO), and Prudential. Along with the action in Minute Entry 473-13, TCW, WAMCO, and Prudential will each receive approximately \$79 million to add to their current portfolios. A copy of a memo from Wilshire to the Board with this analysis, dated February 23, 2018, is filed as Exhibit 473-14.

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473-15 (A-6507). The Retirement Committee report consisted of items reported below at A-6508, A-6509, A-6510, A-6511, and A-6512, and of the following items:

- The Board was provided annual review information from Fidelity Investments, the trustee and record-keeper for the 401(k) Plan, regarding utilization of the 401(k) Plan by participants. The information included data such as participation rates, deferral and contribution rates, and asset allocation. The information also included information on various types of engagement levels with 401(k) Plan participants. A copy of the 401(k) Plan annual review information is filed as Exhibit 473-15(a).
- In fall 2017, the System partnered with Fidelity Benefits Consulting to provide personalized retirement readiness statements to all cash balance and 401(k) members providing information on whether they are on-track now and in the future with regarding to their retirement savings and their investment allocation within the 401(k) Plan. The Board was provided metrics on the positive actions that were taken by participants following the receipt of these retirement readiness statements. A copy of the Retirement Readiness Metrics report from Fidelity Benefits Consulting is filed as Exhibit 473-15(b).

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473-16 (A-6508). Upon the recommendation of the Retirement Committee, the Board voted to accept the Report of Actuary on the Seventy-Eighth Actuarial Valuation of the TVA Retirement System prepared as of September 30, 2017. As set forth in the report, Mercer calculated the minimum required contribution to the System for fiscal year 2019 to be \$300 million per section 9B4 of the System Rules and Regulations. A copy of Mercer's actuarial report of the System as of September 30, 2017, is filed as Exhibit 473-16.

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473-17 (A-6509). Upon the recommendation of the Retirement Committee, the Board accepted the actuarial valuation of the Variable Annuity Fund as of September 30, 2017, by Mercer, and its recommendation that the outstanding variable units should be decreased by 103,280. The decrease in number of units will result in an increase in the unit value and will be

applied beginning with the July 2018 payroll. A copy of Mercer's TVA Retirement System Variable Annuity Valuation Report as of September 30, 2017, is filed as Exhibit 473-17.

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473-18 (A-6510). The Board was provided a copy of the proposed amendments to the TVARS Rules and Regulations and the 401(k) Plan Provisions that are a part of the IRS Private Letter Ruling request, which would allow those System members with cash balance accounts and benefits to elect to receive future retirement benefits through the 401(k) Plan only and also allow them to transfer their cash balance account value to the 401(k) Plan. The Board was also provided an implementation and communications/education timeline developed by the System staff with Fidelity Benefits Consulting for the rollout of these election options. A copy of the proposed amendments and implementation and communications/education timeline is filed as Exhibit 473-18.

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473-19 (A-6511). The Board was provided a copy of the System's current Fiduciary Liability Insurance Policy with AIG and a copy of the 2018 renewal application filed by Senior Counsel through the insurance broker, Marsh USA. The Executive Secretary notified the Board that the System is awaiting premium quotes from Marsh and the current policy would expire on May 20, 2018, requiring approval before the next regular quarterly meeting in June in order to renew the policy. A copy of the AIG fiduciary liability policy and 2018 renewal application is filed as Exhibit 473-19.

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473-20 (A-6512). Pursuant to the System's Administrative Claims and Appeals Procedures, the Board considered an appeal from the attorney for [redacted], widow of deceased

retiree [redacted], requesting the Board grant [redacted] survivor benefits as his spouse. At the time of his retirement, [redacted] did not make an election to provide a survivor benefit for his wife, [redacted], and this election did not require the consent of [redacted] pursuant to Section 6B4 of the TVARS Rules, because [redacted] first became a member of the System before January 1, 1990. Under the appeal, [redacted]'s attorney claims the election should have been subject to spousal consent. After review of the arguments and support submitted for the appeal and discussion with System staff, the Board found that the TVARS Rules solely govern a requirement like this and that Section 6B4 is clear and unambiguous regarding the spousal consent requirement in this situation. Accordingly, the Board voted to deny the appeal filed by [redacted]'s attorney. A copy of the appeal materials is filed as Exhibit 473-20.

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473-21 (A-6513). The Election Committee report consisted of the items reported below at A-6514 and A-6515, and of the following items:

- On March 26, 2018, the Election Committee met and discussed the process for the Board to evaluate and select a new 7th Director during 2018. The Election Committee discussed a proposed process with the Board and the System staff at the meeting. As a part of the process, the Election Committee recommended that the System send a letter of notice to all TVA retirees (approximately 21,000) announcing the 7th Director vacancy and requesting applications to be submitted by retirees who would be interested in being considered for the position. After discussion, the Board approved by a 4 to 2 vote sending this announcement letter to all TVA retirees, which would also be posted on the TVARS and TVARA websites. Directors DeLay, Hovious, Muzyn, and Taylor voted for sending this letter, and Directors Stokes and Wilson voted against sending the letter.
- Director DeLay made a motion to amend Section 3(2)(a) of the TVARS Rules to have the 7th Director retiree position on the Board elected by TVA retirees instead of being selected by the other six Directors on the Board. The motion received a second from Director Hovious. After discussion, the motion to amend Section 3(2)(a) of the TVARS Rules failed to pass by a lack of receiving 4 votes. Directors DeLay, Hovious, and Muzyn voted for the motion, and Directors Stokes, Taylor, and Wilson voted against the motion.

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473-22 (A-6514). On March 26, 2018, the Election Committee met and discussed with System staff the election services provided by Election America, the System's election vendor, during last year's election cycle. Upon the recommendation of the Election Committee, the Board voted to approve a new election services engagement with Election America to conduct the 2018 Board election and authorized the Executive Secretary to execute a statement of work (SOW) with Election America with 3-year fixed pricing as provided to the System. A copy of the SOW and 3-year pricing is filed as Exhibit 473-22.

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473-23 (A-6515). On March 26, 2018, the Election Committee met and discussed with System staff the upcoming election schedule. Upon the recommendation of the Election Committee, the Board approved the 2018 TVARS Election Schedule by a vote of 5 to 0, with Director Muzyn recusing himself. A copy of the Election Schedule is filed as Exhibit 473-23.

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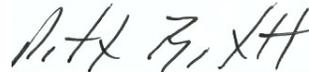
473-24 (A-6516). The Audit Committee report consisted of the following items:

- Prior to the meeting, the Board met with Crowe Horwath, the System's external auditor, and discussed the System's 2017 fiscal year-end audit, annual reported, and audited financials. A copy of the draft 2017 annual report is filed as Exhibit 473-24(a).
- Prior to the meeting, the Board met with Crowe Horwath's cybersecurity team and Andrea Brackett, TVA's Senior Manager, Cyber Governance, Policy and Standards, to discuss cybersecurity information and issues of relevance to the System and its functions. A copy of the Cyber Security Discussion, dated March 29, 2018, is filed as Exhibit 473-24(b).
- The Board was provided and took note of a summary of charges on the System's credit card for the previous quarter.

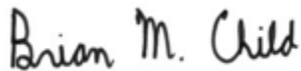
- The Board was provided and took note of the System Board's travel expenses for the previous quarter.
- The Board was provided information on the upcoming annual Wilshire consulting client conference as well as other educational seminars and conferences available to trustees and fiduciaries of public retirement plans. In addition, in accordance with the Board's travel policy, the Board accepted the payment of expenses from Wilshire for any Board members and System staff who attend the Wilshire consulting client conference and any events integral to the conference. A copy of the information regarding the Wilshire conference and other education seminars and conferences is filed as Exhibit 473-24(c).

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The meeting was adjourned at 1:56 p.m., EDT.



Executive Secretary



Chair