

Meeting No. 486

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

June 3, 2020

[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 virtually on Wednesday, June 3, 2020, at 12:30 p.m., EDT, via WebEx videoconferencing.

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The following directors were present: Brian M. Child, Chair; Michael L. Belcher; Eric J. Davis; Samuel J. DeLay; James W. Hovious; and Tina R. Wallace. Also present were Mark N. Meigs, Executive Secretary; William B. Jenkins, Jr., Assistant Secretary; Sally R. Weber, Manager, Retirement Operations; Brent B. Roberts, Manager, Financial Reporting; Veenita Bisaria, Manager, Investment & Risk Management; Chris A. Stinnett, Sr. Analyst, Investment & Risk Management; and W. Colby Carter, Senior Counsel.

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486-1. Each director was notified in a memorandum dated May 5, 2020, of the regular quarterly meeting to be held on June 3, 2020. A copy of the notice from the Executive Secretary is filed as Exhibit 486-1.

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486-2 (A-6722). The Chair's report included the following:

- The Chair welcomed Eric Davis as a new Director on the Board. Mr. Davis, who serves as Senior Manager, Investments in TVA's Treasury group, was appointed by TVA on April 1, 2020, to replace Tammy Wilson on the Board. The Chair also recognized Tammy Wilson for her years of service as a Director on the Board and appointed Mr. Davis to serve on the same Board committees as Ms. Wilson.
- Given the vacancy in the Vice-Chair position as a result of Ms. Wilson's departure, as required by the System's By-Laws, the Chair called for an election to be held for the office of Vice-Chair of the Board. Mr. DeLay was nominated as a candidate for the office of Vice-Chair. There were no other nominations. Pursuant to the System's By-Laws, the Directors voted by ballot, sent electronically to Sally Weber, Manager, Retirement Operations, who recorded the vote. Mr. DeLay was elected as Vice-Chair for the remaining portion of the three-year term ending at the first meeting of the Board after October 31, 2020.
- The Chair acknowledged the System staff for their continuing work remotely during the pandemic and for keeping the Board informed regarding the System's work and the investment performance.

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486-3 (A-6723). The Executive Secretary's report included the following:

- The Executive Secretary also commended the work of the System staff during the pandemic, including the work to move many of the retirement processes from manual paper to electronic.
- The Executive Secretary provided to the Board the proposed budget for the System for fiscal year 2021. A copy of the proposed budget is filed as Exhibit 486-3.
- The Executive Secretary reminded the Board that the next quarterly Board meeting will be September 10-11 in Chattanooga if the Board is able to meet in person. In addition, the Executive Secretary informed the Board that on September 11 following the next Board meeting Jeanna Cullins and Julie Becker of Aon, the System's governance consultant, will work with the Board on the Board Self Evaluation and Executive Secretary Evaluation for fiscal year 2020.

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486-4 (A-6724). Senior Counsel informed the Board that Groom Law Group has completed its plan document compliance review of the TVARS Rules and Regulations and the Provisions of the TVA Savings and Deferral Retirement Plan (401(k) Plan), and on April 27,

2020, issued favorable opinion letters regarding the compliance of the plan documents with IRS tax-qualification requirements. A copy of the Groom opinion letters are filed as Exhibit 486-4.

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486-5 (A-6725). The Board noted its previous notational actions of the following:

- Approval on May 19, 2020, of a 1-year renewal of the System's fiduciary liability insurance policy for the Board and System staff with \$10 million in total coverage, subject to a \$500,000 deductible, using AIG for the first \$5 million in coverage and Euclid for the second \$5 million in coverage. A copy of the insurance policy renewal quotes with AIG and Euclid from Marsh, the System's insurance broker, and the insurance application and policy is filed as Exhibit 486-5(a).
- Approval on March 10, 2020, of a disability retirement benefit appeal by [redacted] following the receipt of additional medical information from [redacted] and a second medical review by Advanced Medical Reviews, the System's medical review board, of [redacted] disability application with the additional medical information. A copy of the second medical reviews by AMR and the Board's notational approval of the appeal is filed as Exhibit 486-5(b).

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486-6. As a part of the Consent Agenda, the Board approved the minutes for the meeting reported below in A-6726, and accepted the reports as of March 31, 2020, listed below in A-6727, A-6728, A-6729, and A-6730.

- A-6726 Meeting No. 485 held March 6, 2020
- A-6727 Treasurer's Report (filed as Exhibit 486-6(a))
- A-6728 Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) (filed as Exhibit 486-6(b))
- A-6729 Report of retirements approved (filed as Exhibit 486-6(c))
- A-6730 Quarterly review for the TVA Savings and Deferral Retirement Plan (401(k) Plan) prepared by Fidelity Investment Institutional Services Company (Fidelity) (filed as Exhibit 486-6(d))

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486-7 (A-6731). The Audit Committee report consisted of the items reported below at A-6732 and A-6733, and of the following items:

- Prior to the meeting, the Board met with Crowe to discuss the results of fiscal year 2019 financial statement audits of the System and the 401(k) Plan and Crowe's opinion letters with the audit. A copy of the 2019 TVARS Annual Report, including audited financial statements and opinion letters, has been provided to the Board, posted to the TVARS website, and is filed as Exhibit 486-7(a).
- As a part of the System's governance policy review process, prior to the meeting, Senior Counsel reviewed with the Board the Board Education Policy and discussed certain amendments to the policy. These amendments to the Board Education Policy will be presented at the next quarterly meeting for approval. A copy of the current version of the Board Education Policy is filed as Exhibit 486-7(b).

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486-8 (A-6732). Upon the recommendation of the Audit Committee, the Board voted to approve an engagement letter with Crowe LLP to perform the fiscal year 2020 financial statement audits of the System and the 401(k) Plan. A copy of the engagement letter between Crowe and the System is filed as Exhibit 486-8.

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486-9 (A-6733). As a part of the System's governance policy review process, the Board previously reviewed the TVARS Governance Policy with Senior Counsel (see Minute Entry 485-7). After discussion of the proposed amendments from the review, upon the recommendation of the Audit Committee, the Board approved these amendments to the TVARS Governance Policy. A copy of the amended and restated policy is filed as Exhibit 486-9.

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486-10 (A-6734). The Retirement Committee report consisted of the item reported below at A-6735, and of the following items:

- Prior to the meeting, Steve McManus of Fidelity presented to and discussed with the Board the 401(k) Plan health score based on plan design, participant engagement, and participant retirement readiness. TVA's 401(k) Plan score is one of the top plan scores when compared to all other plans in Fidelity's recordkeeping peer group. Fidelity also provided to the Board information on the CARES Act, the COVID-related distributions and loan deferrals implemented by the 401(k) Plan pursuant to the CARES Act, and information on participants who have taken advantage of these options. A copy of Fidelity's report is filed as Exhibit 486-10(a).
- At the request of the Board, prior to the meeting, Kelly Lawson and Jeannie King from the TVA Employee Benefits group, provided information to the Board on the long-term disability insurance benefits provided and made available to employees by TVA and how these insurance benefits compare to the TVARS disability retirement benefit and discussed with the Board looking into how to better communicate these benefits to TVA employees. A copy of this presentation is filed as Exhibit 486-10(b).

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486-11 (A-6735). At the December 2019 meeting, the Board approved the use of the following new mortality tables for the System's liability valuation and minimum contribution requirements as of September 30, 2019: (i) for the base mortality table, the Pri-2012 mortality tables adjusted based on the System's experience, and (ii) for the mortality improvement scale, the MSS-2019 scale developed by Mercer based on Social Security data and Mercer research (see Minute Entry 484-17). As a result of these new mortality table assumptions, upon the recommendation of the Retirement Committee, the Board approved the following amendments to Section 1(g) of the Actuarial Assumptions in the Appendix to the TVARS Rules and Regulations consistent with the new mortality table assumptions:

APPENDIX TO THE RULES AND REGULATIONS OF THE TVA RETIREMENT SYSTEM

Actuarial Assumptions

Certain benefit payments are calculated on the basis of actuarial assumptions, mortality tables, and interest rates. The following have been adopted by the board. The board may change these assumptions, tables, and rates from time to time.

1. g. Effective September 30, ~~2018~~2019, for purposes of the System's actuarial valuations as set forth under the Rules and Regulations, the following service mortality and disability mortality tables will be used. For service mortality, the mortality table shall be the base healthy mortality table ~~RP-2014Pri-2012~~ from the Society of Actuaries' ~~2014~~2019 mortality study multiplied by a load factor of ~~100%~~ 102% for ~~males~~ male annuitants, and ~~110%~~ 115% for ~~females~~ female annuitants, with no collar adjustment, and with mortality improvement projection after 2006 removed and replaced with based on Mercer's mortality improvement scale MSS-20182019 (as updated annually, and reviewed and approved by the Board) which reflects generational mortality improvement based on the Social Security Administration's projected mortality experience. For disability mortality, the mortality table shall be the base disabled mortality table ~~RP-2014Pri-2012~~ from the Society of Actuaries' ~~2014~~2019 mortality study multiplied by a load factor of ~~120%~~ 125% for males and 95% for females, with no collar adjustment, and with mortality improvement projection after 2006 removed and replaced with based on Mercer's mortality improvement scale MSS-20182019 (as updated annually, and reviewed and approved by the Board) which reflects generational mortality improvement based on the Social Security Administration's projected mortality experience.

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486-12 (A-6736). The Election Committee reported to the Board that given the remote work situation with many employees during the pandemic, nominations for candidates to be on the ballot for the upcoming Director election will be accepted by e-mail to the System in a newly created mailbox, and that this option will be communicated by the System in the notice to employees of nominations for the Director election.

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486-13 (A-6737). The 7th Director Search Committee updated the Board on the status of the 7th Director selection process and that the Committee has developed a questionnaire with input from all Board members that will be sent to all the retiree applicants by June 10 for them to fill out and submit in order to provide more information on the candidates to the Committee. A copy of the 7th Director candidate questionnaire is filed as Exhibit 486-13.

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486-14 (A-6738). The Investment Committee report consisted of the item reported below at A-6739, and of the following items:

- On April 8, 2020, the Investment Committee met with Wilshire and the System investment staff to discuss the performance of the System's assets and the available liquidity to pay monthly retirement benefits given the downturn and increased volatility in the equity and credit markets as a result of the effects of the global pandemic on the international markets and economy. A copy of the TVARS liquidity presentation and plan prepared by the System investment staff for the Investment Committee dated April 2020 is filed as Exhibit 486-14(a).
- As a part of the April 8, 2020, Investment Committee meeting, the Committee also met with the following managers: (i) BlackRock, which reviewed the performance of the 401(k) Plan Target Retirement Portfolios during the pandemic-related market downturn and volatility and how the Portfolios are rebalanced to target allocation weightings during periods of large market swings; and (ii) Wellington Management Company, which provided a market analysis and outlook. A copy of the BlackRock and Wellington presentations are filed as Exhibit 486-14(b).
- On June 2, 2020, Wilshire presented to and discussed with the Investment Committee an asset allocation analysis and asset and liability projections for the System and Wilshire's recommendation on whether and when the System should pursue a de-risking strategy with the asset allocation policy based on this analysis and projections. A copy of Wilshire's presentation dated June 2020 is filed as Exhibit 486-14(c).
- On June 2, 2020, Aon provided to the Investment Committee and System staff the quarterly 401(k) Plan Discussion Guide covering the following: information on CARES Act and implementation of COVID-related distribution and loan options, asset allocation and quarterly flows, performance of the investment funds in the 401(k) Plan's lineup, and manager and fee updates. A copy of the Guide is filed as Exhibit 486-14(d).
- On June 2, 2020, Aon presented to the Investment Committee and System staff an analysis of the lowest cost vehicle options available for all of the funds in the investment lineup of the 401(k) Plan. As a result of the analysis, lower cost vehicles were potentially identified for the following: (i) the BlackRock passively-managed funds by moving from a net of fee share class to a gross of fee share class record kept by Fidelity; (ii) the T. Rowe Price Institutional Large Cap Value Fund by moving to a separate account; and (iii) the William Blair SMID Growth Fund by moving to a lower cost CIT when assets in the fund reach and remain at a certain level. Following a discussion, the Board directed the staff to pursue the move in the BlackRock passively managed funds to gross of fee vehicles with Fidelity and placed on hold any changes in the fund vehicles for the T. Rowe Price and William Blair funds pending more information around separate account questions and a possible CIT vehicle with the T. Rowe Price fund and the William Blair fund consistently maintaining asset

levels above the threshold necessary for the CIT vehicle option. A copy of Aon's lowest cost vehicle analysis is filed as Exhibit 486-14(e).

- On June 2, 2020, Aon provided to the Investment Committee and System staff the annual analysis of Fidelity's Personal Planning & Advice (PP&A), which is the 401(k) Plan's managed account service made available to participants, and information on the participants enrolled in Fidelity's PP&A, including fees for the managed account service. As a part of the analysis, Aon informed the Committee that it continues to maintain a "Buy" rating for Fidelity PP&A. A copy of Aon's analysis of Fidelity's PP&A is filed as Exhibit 486-14(f).
- The Board was provided and took note of private credit and private real assets portfolio reports from the Wilshire Private Markets group, which included updates on the strategic implementation of the portfolios, potential manager recommendations in the pipeline for consideration, and the current composition and performance of the System's private credit and real assets portfolios. A copy of Wilshire's private credit and private real assets portfolio reports dated March 2020 are filed as Exhibit 486-14(g).
- The Board was provided and took note of a private equity program report from HarbourVest, which included an update on the strategic implementation of the portfolio, potential manager recommendations in the pipeline for consideration, and the current composition and performance of the System's private equity portfolios. A copy of HarbourVest's private equity program report dated April 2020 is filed as Exhibit 486-14(h).
- The Board was provided and took note of information regarding asset allocation and asset class transfers during the first quarter of 2020. A copy of this information is filed as Exhibit 486-14(i).
- The Board was provided and took note of information on due diligence meetings and conference calls between System staff and investment managers for the period February 2020 through May 2020. A copy of the information is filed as Exhibit 486-14(j).
- The Board was provided and took note of information on several investment managers and their portfolios and strategies. A copy of this Investment Manager Product Discussion List is filed as Exhibit 486-14(k).
- The System staff notified the Board of amendments to investment manager guidelines approved by the Executive Secretary during the first quarter of 2020. A copy of the information is filed as Exhibit 486-14(l).

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486-15 (A-6739). On June 2, 2020, the Investment Committee met and discussed with Wilshire and the System investment staff a manager search for a global listed infrastructure portfolio. Under the System's asset allocation policy, there is a 5% allocation to Public Real Assets, including, but not limited to, Real Estate Investment Trusts (REITs), commodities, midstream energy infrastructure, and global listed infrastructure. After discussion, upon the recommendation of Wilshire and the Investment Committee, the Board approved allocating \$100-125 million to Wellington Management Company, a current investment manager of the System, to be invested in Wellington's Enduring Assets strategy. The new allocation to the Wellington's Enduring Assets strategy will create an allocation to global listed infrastructure that makes up 1/3 of the 5% allocation to Public Real Assets. A copy of the global listed infrastructure manager search analysis and memo from Wilshire to the Board, dated June 2, 2020, is filed as Exhibit 486-15.

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486-16. As a new business item, the following proposal to amend Section 3(2)(a) of the TVARS Rules and Regulations to provide for the election of the 7th director by retirees and to remove the previously adopted carryover provision for the 7th director was presented by Mr. DeLay for discussion and consideration by the Board:

BE IT RESOLVED, that Section 3(2)(a) of the Rules and Regulations of the TVA Retirement System is amended to delete the language marked through and to add the language underlined as follows:

SECTION 3

3. Administration of the System

2. a. The board shall consist of seven members, three of whom shall be elected by and from the membership of the System, three of whom shall be appointed by TVA, and one of whom shall be a retiree ~~selected by a majority vote of the other six~~ selected by the retired members of the System. Except for the members of the initial board who

were designated for staggered terms of one, two, and three years, respectively, the term of each director shall be three years. Each term shall be deemed to expire with the end of the day preceding the respective anniversary date of the establishment of the System, and all appointments and elections except those made to fill vacancies for unexpired terms shall be effective on such anniversary dates; ~~provided however, in the event the three elected directors and the three appointed directors do not select a seventh director by the expiration of the seventh director's term, then the current sitting seventh director (i) shall continue to serve as a member of the board for an additional one (1) year or until such time as the six directors select the seventh director by a majority vote, if earlier, and (ii) during such continuation period, such seventh member shall be restricted from voting on amendments to these Rules and Regulations and the Deferral Plan Provisions, with the exception of any amendments required by IRS rules or related to the tax-qualified status of the System and Deferral Plan.~~ Any vacancy on the board shall be filled by election or appointment, as the case may be, for only the unexpired portion of the predecessor's term.

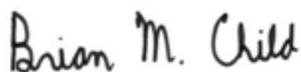
Director DeLay made a motion to approve the proposed amendment to Section 3(2)(a) of the TVARS Rules and Regulations with the additional proposal that the election by retirees would be held using instant runoff voting. The motion received a second from Director Hovious. After discussion, the Board voted by roll call vote, and the motion did not pass for failure to receive four votes. Directors Belcher, DeLay and Hovious voted for the motion, and Directors Child, Davis and Wallace voted against the motion.

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The meeting was adjourned at 1:03 p.m., EDT.



Executive Secretary



Chair