

Meeting No. 490

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

March 12, 2021

The regular quarterly meeting of the Board of Directors (Board) of the TVA Retirement System (System) was held virtually on Friday, March 12, 2021, at 2:27 p.m., EST, via WebEx videoconferencing.

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The following directors were present: Brian M. Child, Chair; Samuel J. DeLay, Vice-Chair; Michael L. Belcher; Marilyn G. Brown; Eric J. Davis; 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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490-1 Each director was notified in a memorandum dated February 17, 2021, of the regular quarterly meeting to be held on March 12, 2021. A copy of the notice from the Executive Secretary is filed as Exhibit 490-1.

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490-2 (A-6787). For the Chair's report, the Chair expressed his appreciation for how well the System's business has continued to be performed by the TVARS staff during the continuing remote working environment.

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490-3 (A-6788). The Executive Secretary's report included the following:

- The Executive Secretary provided an update on the progress of the TVARS work plan for fiscal year 2021.
- At the previous request of the Board, the Executive Secretary provided information on the financial impact to the System of the 2021 cost-of-living adjustments (COLAs) and the COLA restrictions applicable to participants in TVA's supplemental executive retirement plan and with compensation exceeding Executive Schedule Level IV.
- The Executive Secretary provided the Board a revised and updated 3-year schedule of review for the TVARS governance policies.
- The Executive Secretary updated the Board on the fiscal year 2021 budget and plans to add two new staff positions to support the System's work and initiatives.

A copy of the Executive Secretary's report is filed as Exhibit 490-3.

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490-4 (A-6789). For the Legal Update, the Senior Counsel provided information to the Board on the TVA indemnification policy and the TVARS fiduciary liability insurance policy in place for Board members and staff as fiduciaries of the System. Senior Counsel also updated the Board on the upcoming renewal process for the fiduciary liability insurance policy and the use of TVA's insurance consultant and broker, McGriff, for purposes of benchmarking. A copy of the Legal Update is filed as Exhibit 490-4.

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490-5 (A-6790). The Board noted its previous notational approval on December 14, 2020, of an amendment to Section 20 of the Actuarial Assumptions in the Appendix to the TVARS Rules and Regulations as follows:

Under Section 6(K) of the TVARS Rules and Regulations, a TVARS member who is eligible for an original structure pension benefit, and whose benefit has a present value of \$30,000 or less, may elect to receive that pension benefit in the form of a lump-sum payment instead of a monthly retirement allowance. For purposes of this provision, the interest rate used to calculate the present value of the pension benefit is set forth in Section 20 of the Actuarial Assumptions in the Appendix to the TVARS Rules and Regulations, which is the interest rate for immediate annuities as published by the Pension Benefit Guaranty Corporation (PBGC). In light of upcoming changes to the interest rates published by the PBGC effective January 1, 2021, TVARS has determined with Mercer, its actuary, that it should clarify which PBGC interest rate will be used for purposes of Section 6(K) of the TVARS Rules and Regulations on a going forward basis. Accordingly, Section 20 of the Actuarial Assumptions in the Appendix to the TVARS Rules and Regulations is amended to add the language underlined below:

#### **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.

20. Actuarial present value calculations of lump-sum payments under section 6(K) are based on the interest rate for immediate annuities in effect on January 1 of any calendar year as published by the Pension Benefit Guaranty Corporation. For the avoidance of doubt, the interest rate will be determined as defined in Appendix C to Part 4022 of Title 29 in the Code of Federal Regulations effective January 1, 2021.

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490-6 (A-6791). As a part of the Consent Agenda, the Board approved the minutes for the meeting reported below in A-6792, and accepted the reports as of December 31, 2020, listed below in A-6793, A-6794, A-6795, and A-6796.

- A-6792 Meeting No. 489 held December 8, 2020

- A-6793 Treasurer's Report (filed as Exhibit 490-6(a))
- A-6794 Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) (filed as Exhibit 490-6(b))
- A-6795 Report of retirements approved (filed as Exhibit 490-6(c))
- A-6796 Quarterly review for the 401(k) Plan prepared by Fidelity Investments Institutional Services Company (Fidelity) (filed as Exhibit 490-6(d))

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490-7 (A-6797). The Retirement Committee report consisted of items reported below at A-6798, A-6799, and A-6800, and of the following item:

- Prior to the meeting, Mercer Human Resources Consulting, the System's actuarial consultant (Mercer), provided and discussed with the Board its updated capital market assumptions as of January 2021 and the potential impact on the System's assumed rate of investment return based on the current asset allocation policy. A copy of Mercer's capital market information is filed as Exhibit 490-7.

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490-8 (A-6798). Prior to the meeting, the Board reviewed with Mercer the Report of Actuary on the Eighty-First Actuarial Valuation of the TVA Retirement System prepared as of September 30, 2020 (Actuarial Valuation Report). At the meeting, upon the recommendation of the Retirement Committee, the Board voted to accept the Actuarial Valuation Report performed by Mercer. As set forth in the report, Mercer calculated the minimum required contribution to the System for fiscal year 2022 to be \$300 million per section 9B4 of the TVARS Rules and Regulations. A copy of Mercer's actuarial valuation presentation and the Actuarial Valuation Report is filed as Exhibit 490-8.

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490-9 (A-6799). Prior to the meeting, Mercer presented to the Board the annual qualitative risk assessment of the System as required by the actuarial standard of practice (ASOP) #51 in order to help the Board better understand the various current risks that could impact the System. At the meeting, upon the recommendation of the Retirement Committee, the Board voted to accept Mercer's Risk Assessment under ASOP #51. A copy of Mercer's Risk Assessment dated February 2021 is filed as Exhibit 490-9.

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490-10 (A-6800). Prior to the meeting, the Board reviewed with Mercer the actuarial valuation of the Variable Annuity Fund as of September 30, 2020 (Variable Annuity Valuation Report). At the meeting, upon the recommendation of the Retirement Committee, the Board accepted the Variable Annuity Valuation Report performed by Mercer, and its recommendation that the outstanding variable units should be decreased by 81,019. The decrease in number of units will result in an increase in the unit value and will be applied beginning with the July 2021 payroll. A copy of the Variable Annuity Valuation Report is filed as Exhibit 490-10.

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490-11 (A-6801). The Audit Committee report consisted of the items reported below at A-6802 and A-6803, and of the following items:

- Prior to the meeting, the TVARS financial reporting staff provided and discussed with the Board the annual financial statement risk assessment performed by the TVARS staff and requested by Crowe LLP, the System's external auditor, which analyzed and assessed any risks that the System's financial statements could be misstated due to error or fraud. As a part of this discussion, the Board was also provided an updated annual risk assessment and key control listing for the System and various processes. A copy of the Financial Statement Risk Assessment dated March 2021 and Key Control Listing is filed as Exhibit 490-11(a).
- Prior to the meeting, the TVARS financial reporting staff updated the Board on the status of the System's 2020 fiscal year-end audit being performed by Crowe LLP.

- As a part of the System's governance policy review process, prior to the meeting, Senior Counsel reviewed with the Board the Ethics and Code of Conduct Policy and discussed with the Board certain amendments to the Policy, including recommended amendments from TVA's ethics office. These amendments to the Ethics and Code of Conduct Policy will be presented at the next quarterly meeting for approval by the Board. A copy of the current version of the Ethics and Code of Conduct Policy is filed as Exhibit 490-11(b).

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490-12 (A-6802). As a part of the System's governance policy review process, the Board previously reviewed the Investment Committee Charter with Senior Counsel (see Minute Entry 489-13). After discussion of the proposed amendments from the review (including recommended amendments from Mercer, the System's 401(k) Plan consultant), upon the recommendation of the Audit Committee, the Board approved these amendments to the Investment Committee Charter. A copy of the amended and restated charter is filed as Exhibit 490-12.

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490-13 (A-6803). As a part of the System's governance policy review process, the Board previously reviewed the Retirement Committee Charter with Senior Counsel (see Minute Entry 489-13). After discussion of the proposed amendments from the review (including recommended amendments from Mercer Investment Consulting, Inc., the System's defined contribution plan consultant), upon the recommendation of the Audit Committee, the Board approved these amendments to the Retirement Committee Charter. A copy of the amended and restated charter is filed as Exhibit 490-13.

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490-14 (A-6804). The Election Committee report consisted of the item reported below at A-6805.

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490-15 (A-6805). Prior to the meeting, the Election Committee discussed with TVARS staff the schedule proposed for this year's election. At the meeting, upon the recommendation of the Election Committee, the Board approved the 2021 TVARS Election Schedule. As a part of the approval, the Election Committee confirmed that nominations for candidates to be on the election ballot will continue to be accepted by e-mail to the System and that this option will be communicated in the notice to employees of nominations for the Director election. A copy of the Election Schedule is filed as Exhibit 490-15.

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490-16 (A-6806). The Investment Committee report consisted of the items reported below at A-6807 and A-6808, and of the following items:

- The Board was provided and took note of information regarding asset allocation and investment manager asset transfers during the fourth quarter of 2020. A copy of the information is filed as Exhibit 490-16(a).
- 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 December 2020 through February 2021. A copy of the information is filed as Exhibit 490-16(b).
- On March 5, 2021, Wilshire Associates (Wilshire) presented to and discussed with the Investment Committee the new risk reporting dashboard for the total investment portfolio starting in the fourth quarter of 2020 as a part of the System's expanded engagement with Wilshire. A copy of Wilshire's risk reporting dashboard snapshot is filed as Exhibit 490-16(c).
- Under the System's asset allocation policy, there is a 7.5% target for defensive equity strategies – public equity strategies that are expected to provide downside protection versus the broad equity market during drawdown periods. Wilshire previously provided education to the Investment Committee on the types of defensive equity strategies TVARS may consider as a part of this allocation, including low volatility equity and low beta equity strategies (see Minute Entry 489-17). On March 5, 2021, as a part of the build out of the System's defensive equity allocation, Wilshire provided an investment analysis with a recommended defensive equity asset allocation of 55% to low volatility equity and 45% to low beta equity with allocations within low beta equity to long/short equity, merger arbitrage equity, and multi-strategy. A copy of the Wilshire's Defensive Equity Portfolio investment structure analysis is filed as Exhibit 490-16(d).

- Under the System's asset allocation policy, there is a 12.5% target for U.S. equity, and within the U.S. equity portfolio, there are currently two portable alpha equity overlay portfolios. On March 5, 2021, Wilshire Associates presented information to and discussed with the Investment Committee on these two managers with overlapping U.S. equity overlay strategies and its initial recommendation to consolidate these strategies as a part of an upcoming full structural analysis of the System's U.S. equity portfolio. A copy of Wilshire's information is filed as Exhibit 490-16(e).
- On March 5, 2021, Mercer Investment Consulting, Inc., the System's defined contribution plan consultant, provided to the Investment Committee and TVARS staff the 401(k) Plan quarterly review covering the following: the forward-looking committee calendar through March 2022, investment performance and fees of the 401(k) Plan fund line-up, and a governance review that included current 401(k) Plan statistics, CARES Acts statistics, Fidelity quarterly fees as the provider of recordkeeping and trustee services, litigation and enforcement updates, regulatory and legislative updates, and trending topics. A copy of Mercer's Q4 2020 DC Quarterly Review dated March 5, 2021, is filed as Exhibit 490-16(f).
- Over the last two years, TVARS staff have been meeting with BlackRock, the investment manager of the LifePath Conservative Index Funds within the 401(k) Plan's Target Retirement Portfolios, about a new LifePath Paycheck Fund strategy that could offer lifetime income units within LifePath Fund investments, from which participants could elect to receive a lifetime income stream at the time of retirement. On March 5, 2021, BlackRock provided the Investment Committee an overview of the LifePath Paycheck Funds. After further discussion with BlackRock and TVARS staff, the Investment Committee directed the TVARS staff to conduct further due diligence on the potential strategy and set up additional meetings with BlackRock to provide more in-depth information. A copy of BlackRock's presentation on the LifePath Paycheck Funds dated March 2021 is filed as Exhibit 490-16(g).

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490-17 (A-6807). Under the System's asset allocation policy, there is a 5% target for multi-asset alternative credit strategies. On March 5, 2021, Wilshire and TVARS staff discussed with the Investment Committee their recommendation of Neuberger Berman, a current investment manager, to fulfill this mandate. At the Board meeting, upon the recommendation of Wilshire and the Investment Committee, the Board approved an investment of \$35 million in Neuberger Berman's Insurance Linked Strategies Fund, which invests in "risk transfer"



strategies that focus on non-life, natural catastrophe, insurance-linked securities, including Industry Loss Warranties (ILWs) and natural catastrophe bonds. A copy of Wilshire's multi-asset alternative credit strategies memo and recommendation is filed as Exhibit 490-17.

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490-18 (A-6808). Under the System's asset allocation policy, there is a 10% target for credit-oriented strategies with 1/3 target allocations to private credit, marketable alternatives, and liquid credit strategies. Within liquid credit strategies, there is currently one investment manager in place with PIMCO and an investment in the PIMCO Income Fund. On March 5, 2021, Wilshire provided to the Investment Committee a new investment manager search within the liquid credit strategies space to complement the current investment in the PIMCO Income Fund. At the Board meeting, upon the recommendation of Wilshire and the Investment Committee, the Board approved the appointment of Federated Hermes as a new investment manager of the System and an investment of \$125-150 million in Federated Hermes' International Unconstrained Credit strategy, which has the ability to invest in a wide set of opportunities that includes over twenty sectors in fixed income with a broad geographical focus. A copy of Wilshire's liquid multi-asset credit manager search memo and analysis is filed as Exhibit 490-18.

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490-19. As a new business item, the following proposal to amend Section 3(2) of the TVARS Rules and Regulations to add a restriction on Director eligibility was presented by Director Hovious for discussion and consideration by the Board:

Section 3(2) of the TVA Retirement System Rules and Regulations regarding Board Directors and their terms is amended to add a new subsection as follows:

### SECTION 3

### 3. Administration of the System

2. f. Any individual who is or was a participant in TVA's Supplemental Executive Retirement Plan will be ineligible to serve as a director of the board (either elected, appointed, or selected) until it is determined by actuarial valuation that the Retirement System has reached 100% funded status under the actuarial rules applicable to TVA (ASC 715, as amended, updated or superseded) and remained at 100% funded status at the time of election, appointment, or selection.

Director Hovious made a motion to approve the proposed amendment to Section 3(2) of the TVARS Rules and Regulations and the motion received a second from Director Belcher. After discussion and statements by Directors in support of and against the motion, the Board voted by roll call vote, and the motion to amend Section 3(2) was approved by a vote of 4 to 3. Directors Belcher, Brown, DeLay and Hovious voted for the motion, and Directors Child, Davis and Wallace voted against the motion.

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490-19. As a new business item, the following proposal to eliminate the Director term limit provision in Section 3(2)(c) of the TVARS Rules and Regulations was presented by Director Hovious for discussion and consideration by the Board:

Section 3(2)(c) of the TVA Retirement System Rules and Regulations is amended to delete the entire Section as follows and renumber the remaining subsections accordingly:

#### SECTION 3

### 3. Administration of the System

2. e. ~~An individual is eligible to serve as a director of the board (either elected, appointed, or selected) no more than three full 3-year terms. Any partial term less than 3 years for which an individual has been elected, appointed, or selected under the provisions of this section 3(2) for the unexpired portion of a predecessor's term does not count toward this term limit of three full 3-year terms. Notwithstanding the above, any individual who has already served as a director for three full 3-year terms as of the effective date of this provision will be~~

~~eligible to continue as a member of the board for the remainder of the director's current 3-year term.~~

Director Hovious made a motion to approve the proposed amendment to Section 3(2) of the TVARS Rules and Regulations and the motion received a second from Director DeLay. After discussion and statements by Directors in support of and against the motion, the Board voted by roll call vote, and the motion to amend Section 3(2) failed to pass by a vote of 4 to 3. Directors Belcher, DeLay and Hovious voted for the motion, and Directors Brown, Child, Davis and Wallace voted against the motion.

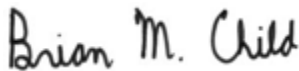
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The meeting was adjourned at 3:01 p.m., EST.



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Executive Secretary



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Chair