

Meeting No. 484

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

December 5, 2019

[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, December 5, 2019, at 3:00 p.m., EST, at the TVA Knoxville Office Complex, WT C-124, Knoxville, Tennessee.

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The following directors were present: Brian M. Child, Chair; Michael L. Belcher; 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; Veenita Bisaria, Manager, Investment & Risk Management; Chris A. Stinnett, Sr. Analyst, Investment & Risk Management; Brent B. Roberts, Manager, Financial Reporting; and W. Colby Carter, Senior Counsel.

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484-1 Each director was notified in a memorandum dated November 25, 2019, of the regular quarterly meeting to be held on December 5, 2019. A copy of the notice from the Executive Secretary is filed as Exhibit 484-1.

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484-2 (A-6671). The Chair's report included the following:

- The Chair officially welcomed Mark Meigs as the new Executive Secretary. Mr. Meigs assumed the position on October 1, 2019, following the retirement of Pat Brackett.
- The Chair congratulated Jim Hovious on his re-election to the Board. Mr. Hovious' new 3-year term will run from November 1, 2019, to October 31, 2022.
- The Chair designated the following members for the Board's standing and special committees for calendar year 2020:

Audit Committee

Tammy W. Wilson, Chair
James W. Hovious
[7th Director]

Retirement Committee

James W. Hovious, Chair
Samuel J. DeLay
Tina R. Wallace

Investment Committee

[Committee of the whole Board]
Samuel J. DeLay, Chair

Election Committee

Michael L. Belcher, Chair
Tammy W. Wilson
[7th Director]

7th Director Search Committee

Tina R. Wallace, Chair
Michael L. Belcher
Samuel J. DeLay

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484-3 (A-6672). The Executive Secretary's report included the following:

- The Executive Secretary provided to the Board the proposed quarterly meeting schedule for calendar year 2020.
- The Executive Secretary informed the Board about a possible manager due diligence trip to Boston with System staff and will coordinate with the Board directors for available dates in the May to June 2020 time period.
- The Executive Secretary provided to the Board the System staff's work plan for fiscal year 2020. A copy of the fiscal year 2020 work plan is filed as Exhibit 484-3.

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484-4 (A-6673). There were no items to report from the Senior Counsel.

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484-5 (A-6674). As a part of the Consent Agenda, the Board approved the minutes for the meeting reported below in A-6675, and accepted the reports as of September 30, 2019, listed below in A-6676, A-6677, A-6678, and A-6679.

- A-6675 Meeting No. 483 held September 12, 2019 (as amended)
- A-6676 Treasurer's Report (filed as Exhibit 484-5(a))
- A-6677 Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) (filed as Exhibit 484-5(b))
- A-6678 Report of retirements approved (filed as Exhibit 484-5(c))
- A-6679 Quarterly review for the TVA Savings and Deferral Retirement Plan (401(k) Plan) prepared by Fidelity Investments Institutional Services Company (Fidelity) (filed as Exhibit 484-5(d))

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484-6 (A-6680). The Audit Committee report consisted of the items reported below at A-6681, A-6682, A-6683, and A-6684, and of the following item:

- Prior to the meeting, the System staff updated the Board on the status of the upcoming changes to the frequency of retirement benefit direct deposit statement mailings from Bank of New York Mellon that will begin in February 2020.

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484-7 (A-6681). Prior to the meeting, the Board met with Crowe LLP, the System's auditor (Crowe), via teleconference to review and discuss the results of the Service Organization Control (SOC1) Report for the System for the period August 1, 2018, to July 31, 2019, and to receive an update on the fiscal year 2019 financial statement audit of the System and 401(k) Plan. Following discussion with the System staff, upon the recommendation of the Audit

Committee, the Board voted to accept the SOC1 Report. A copy of the SOC1 Report is filed as Exhibit 484-7.

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484-8 (A-6682). Upon the recommendation of the Audit Committee, the Board voted to approve, and authorized the Executive Secretary to execute, an engagement letter with Crowe to perform the System's SOC1 audit for the period August 1, 2019, to July 31, 2020. A copy of the engagement letter between Crowe and the System is filed as Exhibit 484-8.

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484-9 (A-6683). As a part of the System's governance policy review process, the Board previously reviewed the Executive Secretary Evaluation Policy with the System's governance consultant, Aon (see Minute Entry 483-18). After discussion of the proposed amendments from the review, upon the recommendation of the Audit Committee, the Board approved these amendments to the Executive Secretary Evaluation Policy. A copy of the amended and restated policy is filed as Exhibit 484-9.

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484-10 (A-6684). As a part of the System's governance policy review process, the Board previously reviewed the Board Self Evaluation Policy with the System's governance consultant, Aon (see Minute Entry 483-18). After discussion of the proposed amendments from the review, upon the recommendation of the Audit Committee, the Board approved these amendments to the Board Self Evaluation Policy. A copy of the amended and restated policy is filed as Exhibit 484-10.

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484-11 (A-6685). The Investment Committee report consisted of the items reported below at A-6686 and A-6687, and of the following items:

- The Board was provided and took note of information regarding asset allocation and investment manager asset transfers during the third quarter of 2019. A copy of the information is filed as Exhibit 484-11(a).
- 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 August 2019 through November 2019. A copy of the information is filed as Exhibit 484-11(b).
- On November 22, 2019, the Investment Committee met with Aon, the 401(k) Plan consultant, and the System staff to review the quarterly 401(k) Plan Discussion Guide. The 401(k) Plan Discussion Guide covered the following: asset allocation and quarterly flows, performance of the investment funds in the 401(k) Plan's lineup, manager fee analysis, a review of the small-mid cap value equity option in the 401(k) Plan's Tier III active fund options, and an overview and analysis of retirement income options for defined contribution plan assets. A copy of the Guide is filed as Exhibit 484-11(c).
- The Board was provided information from System investment staff on several investment managers and their portfolios and strategies. A copy of the Investment Manager Product Discussion List is filed as Exhibit 484-11(d).
- On November 22, 2019, Wilshire met with the Investment Committee and System staff to continue discussion on the System's asset allocation policy, including the process in evaluating asset allocation. A copy of the asset allocation discussion information from Wilshire is filed as Exhibit 484-11(e).
- As previously requested by Board members, System investment staff provided the Board a comparison of the most recent capital market assumptions by asset class from Wilshire and Mercer. A copy of this information is filed as Exhibit 484-11(f).
- The System staff notified the Investment Committee of an investment manager guideline amendment approved by the Executive Secretary during the third quarter of 2019. A copy of this information is filed as Exhibit 484-11(g).
- On November 22, 2019, Ray Kronz from Bank of New York Mellon (BNY Mellon) provided a review of the securities lending program administered by BNY Mellon for the System, including cash collateral requirements, risk management, and performance. A copy of BNY Mellon's Agency Securities Lending Review for TVARS is filed as Exhibit 484-11(h).

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484-12 (A-6686). Following discussions with Wilshire at the Investment Committee on November 22, 2019, the System staff discussed with the Board proposed changes to the System's asset allocation policy as described in a 2019 Asset/Liability Analysis report from Wilshire dated December 2019. Following discussion, upon the recommendation of Wilshire, the Investment Committee, and the System staff, the Board voted to approve a revised asset allocation policy for the System as set forth under "Alternative" on page 9 of the Wilshire Analysis. The new asset allocation policy will be updated in the System's Investment Policy Statement and will be within three buckets and underlying asset classes within those buckets as follows:

- 60% Growth Assets
 - 12.5% U.S. equity
 - 12.5% Non-U.S. equity
 - 7.5% Defensive equity
 - 7.5% Private equity
 - 5% High-yield fixed income
 - 5% Emerging markets debt
 - 5% Private credit
 - 5% Multi-sector credit
- 20% Safety-Oriented Assets
 - 10% Core fixed income
 - 7.5% Long-duration fixed income
 - 2.5% Cash
- 20% Inflation-Oriented Assets
 - 5% TIPS
 - 5% Public real assets
 - 10% Private real assets

A copy of Wilshire's 2019 Asset/Liability Analysis is filed as Exhibit 484-12.

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484-13 (A-6687). As a part of the private equity portfolio, the System has an investment as a limited partner in the HarbourVest Partners VII – Buyout Partnership Fund. The automatic term extensions of the Fund partnership have ended, so pursuant to the Fund’s limited partnership agreement, the General Partner has requested approval from the limited partners to extend the term of the partnership for one additional year with no management fee in order to allow for the liquidation of the Fund’s remaining investments. Upon the recommendation of the Investment Committee, the Board voted to approve the amendment to the Fund’s limited partnership agreement to extend the term of the Fund an additional one year. A copy of the letter from HarbourVest to the Fund’s limited partners along with the extension amendment request is filed as Exhibit 484-13.

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484-14 (A-6688). The Retirement Committee report consisted of items reported below at A-6689, A-6690, A-6691, A-6692, and A-6693, and of the following items:

- Prior to the meeting, System staff provided to the Board a review of the disability retirement eligibility provisions and the Administrative Claims and Appeals Procedures in the TVARS Rules and Regulations (TVARS Rules). A copy of the relevant sections of the TVARS Rules is filed as Exhibit 484-14(a).
- The Board discussed with System staff the topic of applying unused sick leave for crediting purposes under the cash balance pension benefit, which had been raised by a TVARS member with one of the Board members. No further discussion or actions were requested.
- The Executive Secretary updated the Board on the successful change in the recordkeeper from BlackRock to Fidelity for the 401(k) Plan’s Target Retirement Portfolios, which went into effect on October 1, 2019, and relevant statistics on money exchanged and lower fees associated with that transition.

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484-15 (A-6689). The Board approved the calculation of a 1.54% cost-of-living adjustment (COLA) in the monthly pension and supplemental benefits payable to eligible retirees and beneficiaries in accordance with the TVARS Rules. The COLAs are effective with the January 2020 payments as provided for in sections 6I, 7L and 18C3 of the TVARS Rules. A copy of the COLA calculation is filed as Exhibit 484-15.

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484-16 (A-6690). The Board approved the calculation of the following interest crediting rates for calendar year 2020: (i) a 6% annual interest rate credit to the cash balance accounts of participants hired before January 1, 1996, pursuant to Section 7C3(a) of the TVARS Rules; (ii) a 4.75% annual interest rate credit to the cash balance accounts of participants hired on or after January 1, 1996, pursuant to section 7C3(b)(ii) of the TVARS Rules; and (iii) a 4.75% annual interest rate credit for fixed fund accounts pursuant to Section 17 of the Actuarial Assumptions in the Appendix to the TVARS Rules. A copy of these cash balance and fixed fund annual interest rate calculations is filed as Exhibit 484-16.

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484-17 (A-6691). At the September meeting, the Board reviewed with Mercer, the System's actuary, and approved the actuarial assumptions to be used in the valuation of the System's liability and benefit calculations as of September 30, 2019, including the same base mortality table and mortality improvement scales used in the previous year's valuation. Given the availability of two new mortality studies from the Society of Actuaries, prior to the meeting, Mercer discussed with the Board the new mortality tables for U.S. private sector plans using data from 2011-2014 (referred to as Pri-2012) and why they are a good fit for the System's employee and retiree population. Following discussion, upon the recommendation of the Retirement Committee and Mercer, the Board voted to approve 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. A copy of Mercer's report on the proposed changes in the mortality assumptions dated December 5, 2019, is filed as Exhibit 484-17.

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484-18 (A-6692). Pursuant to the System's Administrative Claims and Appeals Procedures, the Board considered an appeal from [redacted], a former TVA employee whose disability retirement application was denied by the System. After review of the disability retirement application file, review of additional information and statements submitted by [redacted], and discussion with System staff, the Board directed the System staff to (i) request additional information from [redacted] for a second review by the System's independent medical board, and (ii) notify [redacted] of an extension of time in the review of his disability appeal. A copy of the appeal materials is filed as Exhibit 484-18.

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484-19 (A-6693). Pursuant to the System's Administrative Claims and Appeals Procedures, the Board considered an appeal from [redacted], a current TVA employee whose disability retirement application was denied by the System. After review of the disability retirement application file, review of additional information and statements submitted by [redacted], and discussion with System staff, the Board directed the System staff to (i) request additional information from [redacted] for a second review by the System's independent medical

board, and (ii) notify [redacted] of an extension of time in the review of his disability appeal. A copy of the appeal materials is filed as Exhibit 484-19.

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484-20 (A-6694). The Election Committee report consisted of the item reported below at A-6695.

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484-21 (A-6695). The Election Committee presented, and the Board accepted, the results of the election between Jim Hovious and Julia Koella that ended September 25, 2019. Jim Hovious received 70% of the votes to win re-election to the System Board for a new three-year term from November 1, 2019, through October 31, 2022. Overall voter participation was 27% with 93% of the votes cast via the Internet. A copy of the certified election results from Election America is filed as Exhibit 484-21.

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484-22 (A-6696). The 7th Director Search Committee presented to the Board the following report:

Special Committee Formed in December 2017

The Committee considered a call for candidate's announcement through the TVARA newsletter and checked the cost and timeline through TVARA. The Committee decided to propose a direct letter to 21,000 retirees.

Motion to Establish 7th Director Selection Process was Approved by the Board on March 26, 2018

Motion supports the Director Election/Selection Policy, the purpose of which is to have the open 7th Director position filled in a fair manner for members, retirees, and beneficiaries by November 1, 2018. The motion supports Policy Objective (#3) ensuring information regarding the requirements of the Board for the 7th Director is widely distributed and readily available.

This motion includes that a position description will be made available to all potential (approximately 21,000) retiree candidates in a first class letter in order to provide a general understanding of the requirements to serve on the Board following election policy parts (A) General Policy Guidelines, (B) Election of Directors (1) “To increase election visibility and participation in the election of the 7th Director.” (3) “Such that all interested parties shall be encouraged to run for election”, and C. (3) “The Election Committee shall publicize the opening” such that:

- a. Publicity is recommended for TVARA posting on the TVARA website and such newsletter postings or bulletins as are available matching the timeline and need of the scheduled appointment.
- b. Posting of the vacancy notice for the 7th Director is immediately required for the TVARS website and shall contain a timely schedule for candidate response.
- c. Effective communication requires notice in a timely letter to be mailed to each retiree of record in TVARS given that TVARA membership does not constitute 50% of the retirees, nor can TVARS require the payment of TVARA dues to receive notice.

Steps in Approved Selection Process

- Created letter to all retirees April 10, 2018
- Letter was sent May 2018 to all retirees, with response due June 29, 2018
- 36 applicants, one became term limited by new TVARS rules, and all received confirmation email within 48 hours (the Committee goal)
- Candidate Filter Process:
 - Reviews of candidates and resumes by all Board members
 - Applicants were chosen independently by Directors (Directors have 10 votes each for candidates), and it worked out that there were chosen 5 top vote getters, who all had enough initial votes to potentially achieve consensus
 - On October 23, 2018, by Directors’ votes, 5 applicants were selected to interview, 5 candidates had 6 votes, one had 5 votes, so that they could be “electable”
- Interview process
 - Collected questions for interviews by all Board members
 - Round 1 interviews of 5 candidates
 - 2nd round of interviews was required
 - Narrowed field to 3 candidates
 - Added some suggested questions from AON after a board self-evaluation review
 - Collected questions for interviews from all Board members
 - Round 2 interviews of 3 candidates
 - Several discussion meetings
 - December 2019 – No consensus on remaining 3 candidates
 - Committee decided to repeat process

- During this Committee work, several TVARS Rules change motions were made to give retirees a vote to elect their 7th Director representative. Those motions were not approved by the Board.
- During the work of this Committee, two new Directors were established which did not have input to the early part of the selection process.
- Two letters were created and mailed to retirees in December 2019.

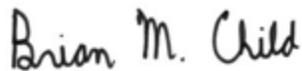
This committee work will be continued in 2020 by a new Committee and Committee Chair.

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The meeting was adjourned at 3:27 p.m., EST.



Executive Secretary



Chair