

Meeting No. 492

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

September 13, 2021

[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 Monday, September 13, 2021, at 1:21 p.m., EDT, 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, Managing Counsel.

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492-1 Each director was notified in a memorandum dated August 24, 2021, of the regular quarterly meeting to be held on September 13, 2021. A copy of the notice from the Executive Secretary is filed as Exhibit 492-1.

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492-2 (A-6829). For the Chair's report, the Chair noted the strong investment performance of the System's assets and thanked the System staff for their continuing ability to work effectively in a remote environment.

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492-3 (A-6830). The Executive Secretary's report included the following:

- The Executive Secretary thanked the TVARS staff for their work on the implementation of the System's new asset allocation policy and de-risking strategy.
- The Executive Secretary informed the Board that he has completed the SOC1 exit meeting with Crowe, the System's auditor, and the TVARS staff is expecting a clean report to be issued the first week of October.
- The Executive Secretary updated the Board on the System's transition from physical servers to virtual servers for TVARS records.
- As a part of continuing staff education and support for employees, information was provided on webinars provided for transmission field operations employees about their retirement benefits and VRIF support for several business units.
- TVARS is working to support the People First Solution Center since it went "live" last month while separately taking some of the best aspects of the PeopleFirst to use and implement within TVARS.

A copy of the Executive Secretary's report is filed as Exhibit 492-3.

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492-4 (A-6831). For the Legal Update, Managing Counsel informed the Board that the TVA Board at its August meeting approved a \$300 million contribution to TVARS for FY 2022. A copy of the Legal Update is filed as Exhibit 492-4.

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492-5 (A-6832). As a part of the Board's approval of the new asset allocation policy at the June 2021 meeting, the Board desired to maintain the level of benefits for participants with

cash balance and fixed fund accounts receiving interest crediting rates tied to the System's assumed rate of return. Therefore, the Board approved amendments to ensure the floor in the calculation of these interest crediting rates would not change from the current rate (see Minute Entry 491-16). However, in order to maintain current benefits, the Board determined with Mercer, the System's actuary, that the ceiling in the calculation of these interest crediting rates also needed to be addressed, which the Board handled by notational vote. The Board noted its previous notational approval on June 17, 2021, approving the following updated amendments to the interest crediting rate calculation for cash balance and fixed fund accounts:

Cash Balance Interest Crediting Rate

Section 7C(3)(b) of the TVA Retirement System Rules and Regulations is amended to add the underlined language as follows:

SECTION 7

7. Cash Balance Benefit Structure

C. Accounts and Credits to Accounts

3. Interest-Based Credits to Accounts

b. Cash Balance Participants Who First Became Members of the System On or After January 1, 1996

(ii) On or after October 1, 2016

As of the last day of each month beginning on or after October 1, 2016, and before the date distribution of benefits to or on behalf of a Participant or retiree commences under section 7D, the Account of each Cash Balance Participant shall be credited with an amount determined by multiplying the monthly interest rate by the Participant's Account balance as of the previous January 1 plus any pay-based credits since that time.

The monthly interest rate shall be a percentage equal to one-twelfth of the annual cash balance interest rate. The annual cash balance interest rate shall be determined by the Board effective January 1 of each year and shall be a percentage equal to the percent increase of the 12-month average of the Consumer

Price Index for All Urban Consumers (CPI-U) for the period ending the previous October 31 over the preceding 12-month period, plus two percent (2%).
Provided, however, that the annual interest rate shall not be less than the higher of (i) the System's assumed rate of investment return minus two percent (2%) or (ii) 4.75%, nor greater than the higher of (x) the System's assumed rate of investment return minus one-half percent (0.5%) or (y) 6.25%, except that the Board may, with the approval of TVA, apply an annual interest rate greater than this maximum for any year.

Fixed Fund Interest Crediting Rate

Section 17 of the Actuarial Assumptions in the Appendix to the TVA Retirement System Rules and Regulations is amended to add the underlined language as follows:

17. The annual rate of interest credited to the Annuity Savings Account shall be determined by the Board effective January 1 of each year and shall be equal to the percentage increase in the 12-month average of the Consumer Price Index for All Urban Consumers (CPI-U) for the period ending the previous October 31 over the preceding 12-month period, plus two percent (2%). Provided, however, that the annual rate of interest shall not be less than the higher of (i) the System's assumed rate of investment return minus two percent (2%) or (ii) 4.75%, nor greater than the higher of (x) the System's assumed rate of investment return minus one-half percent (0.5%) or (y) 6.25%.

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492-6 (A-6833). The Board noted its previous notational approval on August 5, 2021, of the Minutes for Meeting No. 491 held June 8, 2021. Following notational approval, the approved minutes were posted on the TVARS website.

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492-7 (A-6834). As set out in the March 2021 Board-approved election schedule, the window ended July 6 for TVARS to accept nominations to run in the election to be an elected member of the Board for the three-year term beginning November 1, 2021, through October 31, 2024. Only one nomination petition for Michael Belcher was received for this year's election. Accordingly, on July 15, 2021, the Board approved the following resolution by notational vote:

WHEREAS, under Section 3(2) of the TVA Retirement System (TVARS) Rules and Regulations, as the term of office of each of the three Directors of the TVARS Board of Directors (TVARS Board) elected by the members of TVARS expires, an election is held by TVARS for the purpose of electing a successor from candidates who are nominated by a petition subscribed to by not less than 25 members of TVARS;

WHEREAS, pursuant to the election schedule approved by the TVARS Board at its March 12, 2021, quarterly meeting, the deadline was Tuesday, July 6, 2021, for the submission of nominating petitions to TVARS to run in the election to be an elected member of the TVARS Board for the three-year term beginning November 1, 2021, through October 31, 2024;

WHEREAS, only one nomination petition has been received by TVARS for this year's election and such nomination is for Michael L. Belcher, the Director who currently holds the seat on the TVARS Board that is up for election;

WHEREAS, under Section 3(2) of the TVARS Rules and Regulations, which governs elections, appointments, and selection of Directors on the TVARS Board, it states the following:

In the event only one person is duly nominated for the directorship to be filled, the board may declare such nominee elected without the necessity of formal balloting by the membership.

WHEREAS, the TVARS Board desires to make such a declaration for this Director seat on the TVARS Board and believes this is an appropriate, prudent, and cost-efficient course of action to take as provided for under Section 3(2) of the TVARS Rules and Regulations given that there is only one nomination for the directorship for an election that requires a simple majority of votes cast by TVARS members;

NOW, THEREFORE, BE IT RESOLVED, that, in accordance with the authority of the TVARS Board in Section 3(2) of TVARS Rules and Regulations and in light of the fact that only one nomination was received by TVARS for the Director seat, the TVARS Board hereby declares that Michael L. Belcher is re-elected as a Director of the TVARS Board for the three-year term beginning November 1, 2021, through October 31, 2024.

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492-8. As a part of the Consent Agenda, the Board accepted the reports as of June 30, 2021, listed below in A-6835, A-6836, A-6837, and A-6838.

- A-6835 Treasurer's Report (filed as Exhibit 492-8(a))
- A-6836 Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) (filed as Exhibit 492-8(b))

- A-6837 Report of retirements approved (filed as Exhibit 492-8(c))
- A-6838 Quarterly review for the 401(k) Plan prepared by Fidelity Investments Institutional Services Company (Fidelity) (filed as Exhibit 492-8(d))

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492-9 (A-6839). The Retirement Committee report consisted of the items reported below at A-6840, A-6841, and A-6842.

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492-10 (A-6840). Prior to the meeting, the Board discussed the System's actuarial valuation assumptions with Mercer, which included the assumed rate of return on investments of the System's assets, the assumed rate of inflation, interest crediting rates, the cash balance benefit cash out election rate, and the mortality tables and improvement scales used for liability valuation and minimum contribution requirements. After discussion, upon the recommendation of the Retirement Committee and Mercer, the Board voted to approve the actuarial assumptions to be used in the valuation of the System's liability valuation and minimum contribution calculation as of September 30, 2021. The actuarial assumptions approved by the Board include the following: (a) a 5.75% assumed rate of return on investments of the System's assets based on the System's new asset allocation policy and Mercer's updated capital market assumptions and taking into account active management within the System's investment portfolio; (b) an assumed rate of inflation of 2.25%, consistent with the previous year; (c) cash balance benefit cash out election rate of 20% based on actual participant experience, down from 25% the previous year; (d) for the base mortality table, the Pri-2012 mortality tables adjusted based on the System's experience, consistent with the previous year; and (e) for the mortality improvement scale, the MSS-2020 scale developed by Mercer based on Social Security data and Mercer research,

consistent with the previous year. A copy of Mercer's actuarial assumptions review presentation dated September 13, 2021, is filed as Exhibit 492-10.

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492-11 (A-6841). Upon the recommendation of the Retirement Committee, the Board approved a 1-year renewal of Mercer's Statement of Work to provide actuarial services to the System for fiscal year 2022 at fixed-rate pricing. A copy of Mercer's current Statement of Work is filed as Exhibit 492-11.

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492-12 (A-6842). Pursuant to the System's Administrative Claims and Appeals Procedures, the Board considered a disability retirement appeal by [redacted], a current TVA employee. As a part of the appeal review, [redacted] provided the System staff with additional medical information regarding his disability claim, which was resubmitted to the System's medical review board. Following a discussion of the history of the disability retirement application and the results of the medical review board, upon the recommendation of the Retirement Committee, the Board voted to approve [redacted] appeal and disability application. A copy of the memo from the Executive Secretary to the Board regarding this disability retirement appeal is filed as Exhibit 492-12.

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492-13 (A-6843). The Audit Committee report consisted of the item reported below at A-6844, and of the following items:

- Prior to the meeting, Bill Jenkins, Assistant Secretary and Manager, Retirement Applications, reviewed and discussed with the Board a Cybersecurity Risk Assessment of TVARS and the retirement plans performed by the TVARS staff. A copy of the TVARS Cybersecurity Risk Assessment dated September 13, 2021, is filed as Exhibit 492-13(a).

- As a part of the System's governance policy review process, prior to the meeting, Managing Counsel reviewed with the Board the Service Provider Evaluation and Interaction Policy and discussed with the Board certain amendments to the Policy. These amendments to the Service Provider Evaluation and Interaction Policy will be presented at the next quarterly meeting for approval by the Board. A copy of the Service Provider Evaluation and Interaction Policy for review with the Board is filed as Exhibit 492-13(b).

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492-14 (A-6844). As a part of the System's governance policy review process, the Board previously reviewed the Confidentiality Policy with Managing Counsel (see Minute Entry 491-9). After discussion of the proposed amendments from the review, upon the recommendation of the Audit Committee, the Board approved these amendments to the Confidentiality Policy. A copy of the amended and restated policy is filed as Exhibit 492-14.

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492-15 (A-6845). The Election Committee report consisted of the item reported above at A-6834 and the item reported below at A-6846.

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492-16 (A-6846). At its previous special-called meeting on November 16, 2020, the Board selected Marilyn Brown as the 7th Director of the Board for the remainder of the term that ends October 31, 2021. Prior to the meeting, the Board discussed Marilyn's service as a Board member for the partial term. At the meeting, the Election Committee made a motion for Marilyn Brown to be selected for a new three-year term beginning November 1, 2021, and ending October 31, 2024. Following the motion, the Board voted and the motion passed unanimously by a vote of 6 to 0. Director Brown recused herself from the discussions prior to the meeting and from the vote during the meeting.

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492-17 (A-6847). The Investment Committee report consisted of the items reported below at A-6848, A-6849, A-6850, A-6851, A-6852, A-6853, and A-6854, and of the following items:

- The Board was provided and took note of information regarding asset allocation and investment manager asset transfers during the second quarter of 2021. A copy of the information is filed as Exhibit 492-17(a).
- The Board was provided and took note of information on due diligence meetings between TVARS staff and investment managers and service providers for the period June 2021 through August 2021. A copy of the information is filed as Exhibit 492-17(b).
- On September 9, 2021, Wilshire presented to and discussed with the Investment Committee an update on the implementation of the new asset allocation and de-risking strategy since approved by the Board at the June meeting. A copy of Wilshire's asset allocation and de-risking update dated September 2021 is filed as Exhibit 492-17(c).
- On September 9, 2021, Wilshire presented to and discussed with the Investment Committee the risk reporting dashboard for the total investment portfolio through June 2021. A copy of Wilshire's risk reporting dashboard snapshot and total fund risk contributions report dated June 2021 is filed as Exhibit 492-17(d).
- On September 9, 2021, Mercer Investment Consulting, Inc. (Mercer), the System's defined contribution plan consultant, provided to the Investment Committee and TVARS staff the 401(k) Plan quarterly review covering the following: updated committee calendar through June 2022, investment performance and expense ratio analysis of the 401(k) Plan fund line-up, share class change opportunities, current 401(k) Plan statistics, including an analysis of participant loan activity, Fidelity quarterly fees as the provider of recordkeeping and trustee services, litigation and enforcement updates, regulatory and legislative updates, and an update on the status of the implementation of the BlackRock LifePath Paycheck funds. A copy of Mercer's Q2 2021 DC Quarterly Review dated September 9, 2021, is filed as Exhibit 492-17(e).

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492-18 (A-6848). As a part of the private equity portfolio, the System has an investment as a limited partner in the Adams Street 2007 Direct Fund, L.P. The current term of the Fund ends September 23, 2021, so pursuant to the Funds' limited partnership agreement, the General

Partner has requested approval from the limited partners to extend the term of the partnership another 2 years through September 23, 2023. Upon the recommendation of the Investment Committee, the Board voted to approve the 2-year extension of the partnership term for the Fund. A copy of the term extension approval for the Fund is filed as Exhibit 492-18.

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492-19 (A-6849). On September 9, 2021, the Investment Committee discussed with HarbourVest Partners the overall strategic plan of the Summit Hill private equity program, received an update on the 2021-2025 tactical plans for the System's private equity program, and were presented with information on new infrastructure and real assets program investments pursuant to the implementation of the System's new asset allocation policy. At the Board meeting, upon the recommendation of the Investment Committee, the Board approved (i) a private equity commitment of \$100 million for 2022 to be invested in the HarbourVest Annual Global Fund, and (ii) a private infrastructure commitment of \$150 million for 2022-2024 to be invested in the HarbourVest Infrastructure Fund. A copy of the HarbourVest presentation dated September 2021 is filed as Exhibit 492-19.

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492-20 (A-6850). On September 9, 2021, Wilshire Private Markets presented information to the Investment Committee on the Summit Hill funds, including performance, the strategic and tactical plans for 2021 and 2022, and pacing of the commitments. At the Board meeting, upon the recommendation of the Investment Committee, the Board approved commitments of \$200 million and \$100 million for the 2022 series investments in the Summit Hill Credit Fund and Summit Hill Real Assets Fund, respectively. A copy of the Wilshire Private Markets' presentation for the Summit Hill funds dated September 2021 is filed as Exhibit 492-20.

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492-21 (A-6851). On September 9, 2021, TVARS staff reviewed with the Investment Committee proposed revisions to the TVARS Investment Policy Statement (IPS) developed with Wilshire to incorporate the new asset allocation policy and de-risking strategy approved by the Board at the June 2021 meeting. At the meeting, upon the recommendation of the Investment Committee, the Board approved the amended IPS. A copy of the revisions to the IPA is filed as Exhibit 492-21.

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492-22 (A-6852). Under the System's asset allocation policy, there is a 20% target for credit-oriented strategies with 5% to liquid credit strategies. Within liquid credit strategies, there are currently two investment managers in place with PIMCO and an investment in the PIMCO Income Fund and Federated Hermes with an investment in the International Unconstrained Credit strategy. Given the increase in this allocation, the TVARS staff worked with Wilshire to identify Fidelity Institutional Asset Management (FIAM), a current TVARS investment manager, as a third manager for this allocation, which was discussed with the Investment Committee on September 9, 2021. At the meeting, upon the recommendation of Wilshire and the Investment Committee, the Board approved an allocation of 1.5% to 2% of System assets to FIAM's Tactical Bond strategy. A copy of Wilshire's memo on the liquid multi-asset credit manager search and FIAM's Tactical Bond strategy is filed as Exhibit 492-22.

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492-23 (A-6853). As a part of its de-risking strategy, TVARS' new asset allocation policy reduced the target to U.S. and non-U.S. equity by more than half. Given this reduction, on September 9, 2021, Wilshire presented to and discussed with the Investment Committee an

investment structure analysis of the System's global equity portfolios, including the System's U.S. and non-U.S. equity portfolios. The goals of the analysis are to optimize the manager line-up at a reduced allocation size, test and optimize the efficiency of the investment structure, address active risk and return, and optimize investment management fees to realize cost savings when appropriate. As a result of the analysis, at the meeting, upon the recommendation of Wilshire and the Investment Committee, the Board voted to (i) terminate AQR and Stone Harbor as investment managers of the System, and (ii) approve PIMCO as a non-U.S. equity manager with an allocation of 1% of the System's assets to PIMCO's International Stocks Plus strategy. A copy of Wilshire's global equity portfolio investment structure analysis, including manager recommendations, dated September 2021 is filed as Exhibit 492-23.

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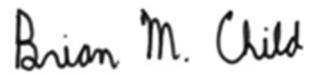
492-24 (A-6854). As a part of Mercer's 401(k) Plan review, Mercer identified a share class change opportunity with the Fidelity Growth Company Fund in the investment line-up that would allow the Plan to transition from the current CIT Pool 1 fund with an expense ratio of 0.43% to the CIT Pool 2 with an expense ratio of 0.38%. This 5 basis point reduction in fees will result in an estimate \$287,000 in annual savings for participants invested in the fund. Upon the recommendation of the Investment Committee, the Board approved transitioning to the new Fidelity Growth Company Fund share class in the 401(k) Plan investment line-up with an expected implementation date in January 2022. A copy of Mercer's share class analysis is filed as Exhibit 492-24.

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The meeting was adjourned at 1:43 p.m., EDT.



Executive Secretary



Chair