

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

(Edited to remove personal information related to individual members and retirees and proprietary information.)

December 11, 2009

The regular quarterly meeting of the Board of Directors (Board) of the TVA Retirement System (System) was held on Friday, December 11, 2009, at 8:10 a.m., CST, in Room 303, 2nd Floor, Tennessee Valley Authority, One Century Plaza, Nashville, Tennessee.

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The following directors were present: Leslie P. Bays, Acting Chairman; Janet C. Herrin; John M. Hoskins; Leonard J. Muzyn; Phillip L. Reynolds; and Anthony L. Troyani. Also present were Tammy W. Wilson, Executive Secretary; Patrick D. Brackett, Assistant Secretary; Pamela K. Ramsey, Treasurer; and W. Colby Carter, Legal Counsel.

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422-1. Each director was notified in a memorandum dated November 24, 2009, of the regular quarterly meeting to be held on December 11, 2009. A copy of the notice from the Executive Secretary is filed as Exhibit 422-1.

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422-2 (A-5661). There were no items to report from the Acting Chairman.

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422-3 (A-5662). The Executive Secretary's report included the following:

- The Executive Secretary updated the Board on the number of new retirees and retiree deaths year to date.
- The Executive Secretary discussed with the Board upcoming announcements by Retirement Services to members regarding System

credit for 2009 winning performance awards and the new IRS limits applicable to the plans for 2010.

- The Executive Secretary updated the Board on the status of background checks on key personnel of the System's investment managers that hold assets in non-custodial accounts, the performance of which the Board previously approved (see Minute Entry 421-21).

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422-4 (A-5663). Legal Counsel reported that there were no pending administrative or judicial proceedings to which the System is a party.

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422-5 (A-5664). The Board approved the minutes of Meeting No. 421 held September 10, 2009.

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422-6 (A-5665). The Board accepted the Treasurer's Report for the quarter ending September 30, 2009. A copy of the Treasurer's Report is filed as Exhibit 422-6. This report is available for review at the Retirement Services office.

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422-7 (A-5666). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated for the quarter ending September 30, 2009. A copy of the Investment Performance Report is filed as Exhibit 422-7. This report is available for review at the Retirement Services office.

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422-8 (A-5667). The Board accepted the report of retirements approved for the quarter ending September 30, 2009. A copy of the report is filed as Exhibit 422-8. These reports contain information on individual cases and are not available for review.

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422-9 (A-5668). The Board accepted the Investment Review for the TVA Savings and Deferral Retirement Plan (401(k) Plan) prepared by Fidelity Investment Institutional Services Company for the quarter ending September 30, 2009. A copy of the 401(k) Plan Investment Review is filed as Exhibit 422-9. This report is available for review at the Retirement Services office.

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422-10 (A-5669). Upon the recommendation of the Executive Secretary, the Board accepted the actuarial valuation of the Variable Annuity Fund, as of March 31, 2009, by Mercer Human Resource Consulting, and its recommendation that, because the Variable Annuity Fund had a surplus as of March 31, 2009, the outstanding variable units should be decreased by 108,322 units. The change in the number of units will result in an increase in the unit value of about 1 percent and will be reflected in the December 2009 unit value. A copy of a memorandum from the Executive Secretary to the Board, dated December 3, 2009, a copy of a letter from Réal Lamarche, Principal, Mercer Human Resource Consulting, to the Board, dated October 8, 2009, and a copy of the TVA Retirement System Variable Annuity Valuation Report as of March 31, 2009, are filed as Exhibits 422-10(a), (b), and (c), respectively. This report is available for review at the Retirement Services office.

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422-11 (A-5670). Upon the recommendation of the Executive Secretary, the Board accepted the financial statements from the System's trustee, The Bank of New York Mellon, and investment managers for the fiscal year ended September 30, 2009. A copy of a memorandum from the Executive Secretary to the Board dated November 18, 2009, regarding the System's receipt of these statements is filed as Exhibit 422-11. This report is available for review at the Retirement Services office.

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422-12 (A-5671). The Board took note of the memorandum dated August 25, 2009, from the Executive Secretary to Tom Kilgore submitting for consideration amendments to the System's Rules and Regulations in conjunction with a TVA contribution of \$1 billion to the System for fiscal year 2010 and as an advance on contributions for fiscal years 2011 through 2013. As a part of this memorandum, the following reports were provided to TVA: the System's annual report for fiscal year 2008, the System's actuary's report and variable annuity fund valuation, the System's previous year's fiscal transactions, and the cash and securities held by the System (summary of assets). These reports were provided to TVA in accordance with section 3(5) of the System Rules, which requires an annual report to the TVA Board of the System's transactions and other matters. A copy of a memorandum from the Executive Secretary to the Board dated December 3, 2009, and a copy of the August 25, 2009, memorandum with reports described above are filed as Exhibits 422-12(a) and (b), respectively.

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422-13 (A-5672). The Board approved the following tentative schedule and locations for the Board meetings and workshops to be held in calendar year 2010:

February 10 (workshop)	Chattanooga
March 3, 4 and 5	New York
April 14 (workshop)	Nashville

June 3, 4	Knoxville
September 8, 9	Chattanooga
December 9, 10	Nashville

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422-14 (A-5673). The Investment Committee report consisted of the items reported below at A-5674, A-5675, A-5676, A-5677, A-5678 and A-5679, and of the following items:

- Wilshire presented to the Board information in support of certain revisions to the total fund policy benchmark against which the System's asset allocation and returns are compared. The policy benchmark revisions involve changes to the TIPS allocation and private real estate allocation and the addition of a Wilshire 5000 quarter lagged benchmark for the private equity allocation. After discussion, and upon the recommendation of Wilshire, the Investment Committee, and the Executive Secretary, the Board voted to adopt these revisions to the total fund policy benchmark. A copy of Wilshire's presentation is filed as Exhibit 422-14(a).
- The Board was provided and took note of information regarding the acquisition by BlackRock, Inc. (BlackRock), one of the System's investment managers, of Barclays Global Investors (BGI), another one of the System's investment managers. A copy of a memorandum from the Executive Secretary to the Board dated December 1, 2009, and documents regarding the acquisition and deemed assignment of the BGI account to BlackRock, are filed as Exhibits 422-14(b) and (c), respectively.
- The Board was provided and took note of the quarterly report on manager compliance with investment guidelines. A copy of the report, dated September 30, 2009, is filed as Exhibit 422-14(d).
- The Board was provided and took note of information regarding the Dreyfus Global Growth Fund F in the 401(k) Plan, which was closed on November 10, 2009. All 401(k) Plan participants with money in this fund were notified of the liquidation date of the fund and any participant assets in the fund as of that date were mapped to the Fidelity Worldwide fund in the 401(k) Plan investment menu. A copy of the information presented to the Board regarding the closure of this mutual fund is filed as Exhibit 422-14(e).
- The Board took note of a previous proposal by Wilshire regarding the transition and investment of TVA's \$1 billion contribution to the System pursuant to the System's asset allocation policy and, upon the recommendation of the Investment Committee and the Executive Secretary,

its notational approval of the proposed transition and investment plan. A copy of Wilshire's proposal dated October 20, 2009, and the Board's notational approvals, are filed as Exhibits 422-14(f) and (g), respectively.

- The Board noted its previous notational action approving, upon the recommendation of the Investment Committee and the Executive Secretary, an amendment to the investment guidelines for Pacific Investment Management Company with respect to certain debt security holdings of CIT Group Inc. A copy the investment guideline amendments and the Board's notational approvals are filed as Exhibit 422-14(h).

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422-15 (A-5674). Upon the recommendation of the Investment Committee, the Board voted to approve, and authorized the Executive Secretary to execute, a contract with Wilshire Associates Incorporated for investment consulting services for the period January 1, 2010, through December 31, 2010, with a fee level increase of 2.5 percent over the previous contract year. A copy of the contract is filed as Exhibit 422-15.

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422-16 (A-5675). Upon the recommendation of the Investment Committee, the Board voted to approve, and authorized the Executive Secretary to execute, a revised supplemental fee agreement for the Trust Agreement with The Bank of New York Mellon, effective October 1, 2009, which will reduce the overall fees under the Trust Agreement by approximately \$160,000 in fiscal year 2010. A copy of a memorandum from the Executive Secretary to the Board dated December 1, 2009, and a copy of the revised supplemental fee agreement are filed as Exhibits 422-16(a) and (b), respectively.

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422-17 (A-5676). Upon the recommendation of the Investment Committee, the Board voted to amend the Investment Policy Statement of its small cap equities portfolio managed by Neuberger Berman LLC's Greene Group to increase the average weighted market cap of the portfolio versus the Russell 2000 value index benchmark. A copy of a memorandum from the Executive Secretary to the Board dated December 1, 2009, and a copy of the revised Investment Policy Statement are filed as Exhibits 422-17(a) and (b), respectively.

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422-18 (A-5677). Upon the recommendation of the Investment Committee, the Board voted to amend the Investment Policy Statement of the short term fund being managed by Pacific Investment Management Company to allow selective increases in the issue concentration limits and to increase the maximum maturity on corporate and Yankees/Euro bonds from 365 days to 18 months. A copy of a memorandum from the

Executive Secretary to the Board dated December 1, 2009, and a copy of the revised Investment Policy Statement are filed as Exhibits 422-18(a) and (b), respectively.

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422-19 (A-5678). Upon the recommendation of Wilshire, the Investment Committee and the Executive Secretary, the Board voted to allocate approximately \$165 million to Mellon Capital Management, a current System investment manager, to invest in the Mellon EB Aggregate Bond Index Fund, a passive bond index. A copy of a memorandum from the Executive Secretary to the Board dated December 1, 2009, and a copy of the report from Wilshire on the passive bond manager search are filed as Exhibits 422-19(a) and (b), respectively.

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422-20 (A-5679). Wilshire presented the Board information on candidates to manage an allocation to investment grade corporate credit. Following a discussion on the information and potential candidates and upon the recommendation of Wilshire, the Investment Committee and the Executive Secretary, the Board voted to approve the selection of Prudential Investment Management Inc. to manage an investment grade corporate credit portfolio with funding of approximately \$200 million.

Accordingly, the Board approved the following resolution:

WHEREAS section 4 of the Rules and Regulations of the TVA Retirement System (System) authorizes the Board of Directors of the System to designate and select investment managers and to enter into investment management agreements subject to the approval of the Board of Directors of TVA; and

WHEREAS the Investment Committee of the System, other representatives of the System, and Wilshire Associates Incorporated have reviewed the qualifications of potential investment managers who have demonstrated expertise in managing investment grade corporate credit portfolios and have recommended that the System Board designate and select Prudential Investment Management Inc. (Prudential), as an investment manager to manage a portion of the assets of the System's Fixed Benefit Fund;

BE IT RESOLVED, That the System Board hereby designates and selects Prudential to manage a portion of the assets in the System's Fixed Benefit Fund and authorizes the Executive Secretary to negotiate and sign an investment management agreement and to negotiate other related documents between the System and Prudential;

RESOLVED further, That the System Board hereby authorizes the Executive Secretary to approve and to execute a supplemental fee and investment agreement, including investment guidelines between the System and

Prudential, and the other related documents necessary to effect the transition of the assets.

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422-21 (A-5680). The Retirement Committee report consisted of items reported below at A-5681, A-5682, A-5683, A-5684 and A-5685.

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422-22 (A-5681). Upon the recommendation of the Retirement Committee, the Board approved the calculation of a 6 percent annual interest rate credit to participants' accounts in the Cash Balance Benefit Structure for calendar year 2010 in accordance with the System Rules. Under section 7C3 of the System Rules, this interest rate credit is calculated as the greater of (i) the percentage change in the Consumer Price Index plus 3 percent (not to exceed 10 percent unless approved by the Retirement System Board and TVA) or (ii) 6 percent. The relevant CPI decrease of 0.63 percent plus 3 percent equaled 2.37 percent. A copy of the Cash Balance annual interest rate calculation is filed as Exhibit 422-22.

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422-23 (A-5682). This item contains information on an individual case and is not available for review.

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422-24 (A-5683). After discussion, and upon the recommendation of the Retirement Committee, the Board voted to adopt certain amendments to the Rules and Regulations of the System and the 401(k) Plan Provisions required by Internal Revenue Service (IRS) rules regarding the waiver of required minimum distributions (RMDs) from the plans in 2009 to retirees who are receiving RMDs. Accordingly, the following amendments were approved:

Section 15 of the Rules and Regulations of the TVA Retirement System is amended by adding a new paragraph to the end of the Section as follows:

Section 15

Minimum Distribution Requirements for Benefits

III. Default to Discontinue 2009 RMDs

Notwithstanding this section 15, a member or member's beneficiary who would have been required to receive required minimum distributions for 2009 but for the enactment of section 401(a)(9)(H) of the Code ("2009 RMDs"), and who would

have satisfied that requirement by receiving distributions that are (i) equal to the 2009 RMDs or (ii) one or more payments in a series of substantially equal distributions (that include the 2009 RMDs) made at least annually and expected to last for the life (or life expectancy) of the member, the joint lives (or joint life expectancy) of the member and the member's designated beneficiary, or for a period of at least 10 years ("Extended 2009 RMDs"), will not receive those distributions for 2009 unless the member or beneficiary chooses to receive such distributions. Members and beneficiaries described in the preceding sentence will be given the opportunity to elect to receive the distributions described in the preceding sentence. No 2009 RMDs or Extended 2009 RMDs are eligible for direct rollover pursuant to section 8.

Article 7.4 of the Provisions of the Tennessee Valley Authority Savings and Deferral Retirement Plan is amended by adding a new paragraph to the end of the Article as follows:

7.4 Minimum Distribution Requirements for Benefits.

G. Default to Discontinue 2009 RMDs

Notwithstanding this Article 7.4, a participant or participant's beneficiary who would have been required to receive required minimum distributions for 2009 but for the enactment of section 401(a)(9)(H) of the Code ("2009 RMDs"), and who would have satisfied that requirement by receiving distributions that are (i) equal to the 2009 RMDs or (ii) one or more payments in a series of substantially equal distributions (that include the 2009 RMDs) made at least annually and expected to last for the life (or life expectancy) of the participant, the joint lives (or joint life expectancy) of the participant and the participant's designated beneficiary, or for a period of at least 10 years ("Extended 2009 RMDs"), will not receive those distributions for 2009 unless the participant or beneficiary chooses to receive such distributions. Participants and beneficiaries described in the preceding sentence will be given the opportunity to elect to receive the distributions described in the preceding sentence. No 2009 RMDs or Extended 2009 RMDs are eligible for direct rollover pursuant to Article 7.5.

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422-25 (A-5684). The Board discussed how the System annually calculates the amount TVA contributes to the System to maintain System credit for TVA employees who are on certain temporary leaves of absence without pay. No action was taken by the Board.

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422-26 (A-5685). The Acting Chairman presented recommendations for the Board's standing and special committee members. After discussion of the

recommendations, the Board approved the following standing and special committee assignments, as recommended by the Acting Chairman:

Audit Committee

Leonard J. Muzyn, Chair
John M. Hoskins
Leslie P. Bays

Retirement Committee

Janet C. Herrin, Chair
Leslie P. Bays
Phillip L. Reynolds

Investment Committee

John M. Hoskins, Chair
Leonard J. Muzyn, Vice Chair
Leslie P. Bays
Janet C. Herrin
Phillip L. Reynolds
Anthony L. Troyani

Election Committee

Anthony L. Troyani, Chair
Janet C. Herrin
Leonard J. Muzyn

Officer elections for the positions of Chairman and Vice Chairman of the TVA Retirement System Board were postponed until a future meeting.

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422-27 (A-5686). The Election Committee report consisted of the item reported below at A-5686.

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422-28 (A-5687). The Election Committee presented to the Board three candidates for consideration as seventh member of the Board. Pursuant to an election process presented by the Election Committee and approved by the Board, no candidate was selected by the Board as the seventh Director. At the request of the Board, the Retirement Committee agreed to discuss the selection process and present additional candidates at a future meeting.

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422-29 (A-5688). The Audit Committee report consisted of the items reported below at A-5689 and A-5690 and of the following item:

- The Board was provided and took note of a copy of the Office of Government Ethics' synopsis of ethical conduct standards applicable to TVA personnel. The annual distribution of the TVA code of conduct by the Audit Committee

is required by the System's Bylaws, Article III, Section 8(h). A copy of a memorandum from the Executive Secretary to the Board dated October 30, 2009, and a copy of the OGE synopsis are filed as Exhibits 422-29(a) and (b), respectively.

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422-30 (A-5689). After discussion, and upon the recommendation of the Audit Committee and the Executive Secretary, the Board accepted the Report on Controls Placed in Operation and Tests of Operating Effectiveness (SAS 70 Report) for the System for the period ending July 31, 2009, prepared by E.H. Johnson & Company, P.C., the System's internal auditor. A copy of the SAS 70 Report is filed as Exhibit 422-30.

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422-31 (A-5690). Upon the recommendation of the Audit Committee, the Board voted to approve, and authorized the Executive Secretary to execute, the following:

- Contract with E.H. Johnson & Company, P.C. for the purpose of auditing internal controls of the System upon which TVA relies in the preparation of TVA's financial statements and producing a SAS-70 report for fiscal year 2010. A copy of the contract is filed as Exhibit 422-31(a).
- Contract with E.H. Johnson & Company, P.C. for the performance of internal auditing services for fiscal year 2010 that are not included in the services for the annual SAS-70 report. A copy of the contract is filed as Exhibit 422-31(b).

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The meeting was adjourned at 9:25 a.m., CST.

original signed by Tammy W. Wilson

Executive Secretary

Approved:

original signed by Tammy W. Wilson for Leslie P. Bays

Vice Chairman