

Meeting No. 423

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

March 5, 2010

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

The regular quarterly meeting of the Board of Directors (Board) of the TVA Retirement System (System) was held on Friday, March 5, 2010, at 8:42 a.m., EST, at the offices of BlackRock, 40 East 52nd Street, New York, New York.

* * *

The following directors were present: Leslie P. Bays, 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.

* * *

423-1. Each director was notified in a memorandum dated February 19, 2010, of the regular quarterly meeting to be held on March 5, 2010. A copy of the notice from the Executive Secretary is filed as Exhibit 423-1.

* * *

423-2 (A-5691). The Chairman, on behalf of the System Board, thanked Tammy Wilson for her service as Executive Secretary of the System and wished her well in her new position within TVA.

* * *

423-3 (A-5692). The Executive Secretary, as a part of her report, discussed the monthly System updates that she has been providing to the Board and asked for any comments to help improve these updates.

* * *

423-4 (A-5693). The Legal Counsel discussed the settlement approved by the Board with Salomon Brothers, Inc. (now CitiGroup Global Markets) pursuant to the ongoing litigation involving the past investment by W.R. Huff Asset Management, a former investment manager of the System, in the debt securities of Bruno's Supermarkets (see also Minute Entry 423-19).

* * *

423-5 (A-5694). The Board approved the minutes of Meeting No. 422 held December 11, 2009. This report is available for review at the Retirement System Office.

* * *

423-6 (A-5695). The Board accepted the Treasurer's Report for the quarter ending December 31, 2009. A copy of the Treasurer's Report is filed as Exhibit 423-6. This report is available for review at the Retirement System Office.

* * *

423-7 (A-5696). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ending December 31, 2009. A copy of the Investment Performance Report is filed as Exhibit 423-7. This report is available for review at the Retirement System Office.

* * *

423-8 (A-5697). The Board accepted the following: (i) the report of retirements approved for the quarter ending December 31, 2009, and (ii) an amended report of retirements approved for the quarter ending September 30, 2009. A copy of the amended September 30, 2009 report, the December 31, 2009 report, and summary demographic information regarding retirements for the December 31, 2009 quarter, are filed as Exhibits 423-8(a), (b) and (c), respectively. This report contains information on individual cases and is not available for review.

* * *

423-9 (A-5698). The Board accepted the Investment Review for the Savings and Deferral Retirement Plan (401(k) Plan) prepared by Fidelity Investment Institutional Services Company (Fidelity) for the quarter ending December 31, 2009. A copy of the 401(k) Plan Investment Review is filed as Exhibit 423-9. This report is available for review at the Retirement System Office.

* * *

423-10 (A-5699). After discussion, the Board took the following actions regarding the officers of the System:

- The Board voted to select Patrick D. Brackett as Executive Secretary to replace Tammy W. Wilson effective March 5, 2010.
- Pursuant to the System's Bylaws, the Board held an election for the vacant position of Chairman. Les Bays was nominated and unanimously elected Chairman. Given the fact that Les Bays was serving as Vice Chairman, the

Board thereafter held an election for the vacant position of Vice Chairman. Janet Herrin was nominated and unanimously elected Vice Chairman.

* * *

423-11 (A-5707). The Audit Committee report consisted of the item reported below at A-5708 and of the following items:

- The Audit Committee informed the Board that Crowe Horwath LLP (Crowe Horwath) has completed its audit of the System's financial statements for the fiscal year ending September 30, 2009. The Board participated in a conference call with Crowe Horwath to discuss the audit, information and ideas with respect to the upcoming 2010 fiscal year audit, and the System's 2009 Annual Report. Upon the recommendation of the Audit Committee, the Board accepted (i) the SAS 114 letter from Crowe Horwath to the Board and (ii) the Retirement System 2009 Annual Report to be distributed to members, retirees, and other stakeholders of the System. A copy of the SAS 114 letter and the 2009 Annual Report are filed as Exhibits 423-11(a) and (b), respectively.
- In accordance with the Board's travel policy, the Board accepted the payment of expenses from Wilshire for any Board member and System staff who attend the Wilshire annual client conference from April 25-27, 2010, and any events integral to the conference.

* * *

423-12 (A-5708). The Audit Committee discussed with the Board the results of the audit report from E.H. Johnson & Company, P.C. evaluating the effectiveness of the System's internal accounting control systems for the period October 1, 2008 to September 30, 2009. Upon the recommendation of the Audit Committee, the Board accepted the audit report. A copy of the Report on Agreed-Upon Procedures for the Tennessee Valley Authority Retirement System 2009 is filed as Exhibit 423-12.

* * *

423-13. A motion was made and seconded to amend the Rules and Regulations of the TVA Retirement System (System Rules) by deleting section 9B9. Section 9B9 of the System Rules suspends the requirements regarding TVA's contributions to the System in section 9B for a four-year period from fiscal year 2010 through fiscal year 2013 in consideration of TVA's \$1 billion contribution to the System for fiscal year 2010. A vote was called on this amendment and it failed for a lack of four concurring votes.

* * *

423-14. A motion was made and seconded to engage outside legal counsel to review and provide an opinion on the amendments to the System Rules approved by the Board at its August 17, 2009, special called meeting. A vote was called on this proposal and it failed for a lack of four concurring votes.

* * *

The meeting recessed at 9:20 a.m., EST.

* * *

At 9:40 a.m., EST, the Board meeting reconvened with the following directors present: Leslie P. Bays, Chairman; Janet C. Herrin; John M. Hoskins; 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.

* * *

423-15 (A-5700). The Investment Committee report consisted of the items reported below at A-5701, A-5702, A-5703 and A-5704, and of the following items:

- At its December 11, 2009, quarterly meeting, the Board approved a plan to strategically invest TVA's \$1 billion contribution to the System over a 12-month period in conjunction with the transition of the System's assets to its asset allocation policy (see Minute Entry 422-14). Currently, with respect to its asset allocation policy, the System is overweight to Treasury Inflation Protected Securities (TIPS) and underweight to investment grade corporate credit. After discussion, and upon the recommendation of Wilshire, the Investment Committee and the Executive Secretary, the Board voted to maintain the current overweight to TIPS and the current underweight to investment grade corporate credit pending the results of the asset allocation study being performed by Wilshire; provided, however, that the System will complete its investment with Prudential Investment Management Inc. in an investment grade corporate credit portfolio, which the Board previously approved (see Minute Entry 422-20).
- The Board was provided and took note of the quarterly report on manager compliance with investment guidelines. A copy of the report, dated December 31, 2009, is filed as Exhibit 423-15.

* * *

423-16 (A-5701). After discussion and consideration of reports, reviews and materials discussed in collaboration with Fidelity over the past year, upon the recommendation of the Investment Committee and the Executive Secretary, the Board approved the following with respect to the 401(k) Plan: (i) the TVA Savings and Deferral

Retirement Plan Investment Policy Statement; (ii) a revised investment menu line-up of 75 core funds, including a brokerage account option, effective in October 2010; (iii) an amendment to the 401(k) Plan Trust Agreement with Fidelity implementing the revised investment menu line-up; (iv) a tentative communications plan to 401(k) Plan participants regarding the transition to the revised investment menu line-up; and (v) a delegation of authority to the Executive Secretary to take any actions necessary to implement and communicate these actions. Copies of the Investment Policy Statement, revised investment menu line-up, and Tenth Amendment to the 401(k) Plan Trust Agreement with Fidelity are filed as Exhibits 423-16(a), (b) and (c), respectively.

* * *

423-17 (A-5702). The Board was provided and discussed information on ClariVest Asset Management (ClariVest), a current investment manager of the System with a U.S. small cap equities portfolio. No action was taken by the Board. A copy of the information on ClariVest is filed as Exhibit 423-17.

* * *

423-18 (A-5703). The Board was provided information regarding TCW Asset Management Company (TCW) from Wilshire and the Executive Secretary. TCW manages an opportunistic mortgage-backed securities portfolio for the System. The Board was also provided information regarding Guggenheim Partners Asset Management (Guggenheim) and its experience and abilities in the mortgage-backed securities and fixed income spaces. After consideration of this information, and upon the recommendation of Wilshire, the Investment Committee and the Executive Secretary, the Board voted to (i) terminate the investment management agreement between TCW and the System; (ii) approve the selection of Guggenheim as an investment manager of the System; (iii) transfer by like-kind exchange the portfolio managed by TCW to Guggenheim when appropriate; and (iv) authorize the Executive Secretary to take any actions necessary to implement these actions. A copy of the information on TCW and Guggenheim provided to the Board is filed as Exhibit 423-18.

In conjunction with the actions taken above, the Board approved the following two resolutions:

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

WHEREAS the System Board previously selected TCW Asset Management Company (TCW) as an investment manager of Fixed Benefit Fund assets;

WHEREAS the investment management agreement between TCW and the System Board provides for the termination of the agreement by the System Board upon notice; and

WHEREAS the Investment Committee and the System's consultant, Wilshire Associates Incorporated, have recommended that the investment management agreement between the System Board and TCW be terminated;

BE IT RESOLVED, That the System Board hereby approves termination of the System's investment management agreement with TCW as soon as administratively feasible, and authorizes the Executive Secretary to execute all necessary and appropriate documents to accomplish this termination; and

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 distressed debt, mortgage-backed securities portfolios, and fixed income and have recommended that the System Board designate and select Guggenheim Partners Asset Management (Guggenheim), 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 Guggenheim 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 Guggenheim; and

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

* * *

423-18 (A-5704). The Board noted its previous notational action approving, upon the recommendation of the Executive Secretary and the Legal Counsel, a settlement with Salomon Brothers, Inc. (now CitiGroup Global Markets), one of three defendants in the litigation involving the past investment by W.R. Huff Asset Management, a former investment manager of the System, in the debt securities of Bruno's Supermarkets. A copy of information involving the Salomon Brothers settlement is filed as Exhibit 423-18.

* * *

423-19 (A-5705). The Retirement Committee report consisted of the item reported below at A-5706 and of the following item:

- Upon the recommendation of the Retirement Committee, the Board voted to adopt amendments to Section 1(12) of the System Rules and Article 2.9A of the 401(k) Plan Provisions. These amendments allow certain lump-sum payments in lieu of base wage or salary increases for fiscal year 2010 to be included in employees' compensation for purposes of calculating pension benefits and TVA matching contributions to the 401(k) Plan. The Board took the following actions:

BE IT RESOLVED, That Section 1(12) 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 1

Definitions

12. "Earnable compensation" shall mean the rate of regular salary or wages which a member would earn if the member worked full time on the basis of the stated salary or wage paid the member; provided, however, that earnable compensation shall include the total of any amount deferred as a salary deferral contribution by the member pursuant to the Deferral Plan and the total of any pretax contributions by the member for employee benefits pursuant to a flexible benefit or spending arrangement established under section 125 of the Code or for qualified transportation fringe benefits under section 132 of the Code. Notwithstanding any other provision of this plan, the earnable compensation of each member taken into account under the plan for any year shall not exceed the compensation limit established under section 401(a)(17)(B) of the Code, as adjusted for cost-of-living increases in accordance with that section. For plan years beginning on or after January 1, 2002, the annual earnable compensation of each member taken into account in determining allocations for any plan year shall not exceed \$200,000, as adjusted for cost-of-living increases in accordance with section 401(a)(17)(B) of the Code. Annual earnable compensation means compensation during the plan year or such other consecutive 12-month period over which compensation is otherwise determined under the Rules and Regulations (the determination period). The cost-of-living adjustment in effect for a calendar year applies to annual earnable compensation for the determination period that begins with or within such calendar year.

Provided, however, that earnable compensation shall include lump-sum payments of up to 3 percent of regular salary or wages for Fiscal Year 1998, and

lump-sum payments of up to 4 percent of regular salary or wages for Fiscal Years 1999 through ~~2009~~2010, which TVA informs the System were made available, in lieu of a base wage or salary increase, across a represented or non-represented group of employees as agreed to during annual negotiations, in the case of represented groups, or approved by TVA in connection with an annual review of management and excluded compensation. Provided further, that earnable compensation shall include (a) lump-sum payments of up to 1.7 percent of regular salary or wages, and minimum awards of \$500 and prorated amounts where applicable, made in Fiscal Year 2001 for Fiscal Year 2000 performance under the TVA Performance Success Award Plan; (b) lump-sum payments of up to 3 percent of regular salary or wages (excluding any overtime pay adjustments) made in Fiscal Years 2001 through 2005 under the Memorandum of Understanding regarding Transition to Multiple Skill Classifications in TVA's River System Operations and Environment organization; and (c) lump-sum payments of up to 6.25 percent of regular salary or wages (excluding any overtime pay adjustments), as approved by TVA, under the TVA Winning Performance Team Incentive Plan.

BE IT FURTHER RESOLVED, That Article 2.9A of the Provisions of the Tennessee Valley Authority Savings and Deferral Retirement Plan is amended to delete the language marked through and to add the language underlined as follows:

2.9 Compensation.

- A. Except as otherwise provided herein and unless otherwise required by the Code, compensation shall mean the annual rate of regular salary or wages which a participant would earn if the participant worked full-time on the basis of the stated salary or wages paid the participant; provided, however, that such compensation shall also include compensation which is not currently includable in the participant's gross income by reason of the application of sections 125, 132(f)(4), or 402(g)(3) of the Code. For the purpose of determining participant's compensation under Article 9.5, compensation shall include a lump-sum payment of up to 3 percent of regular salary or wages for Fiscal Year 1998, and a lump-sum payment of up to 4 percent of regular salary or wages for Fiscal Years 1999 through ~~2009~~2010, which TVA informs the Retirement System were made available, in lieu of a base wage or salary increase, across a represented or non-represented group of employees as agreed to during annual negotiations, in the case of represented groups, or as approved by TVA in connection with an annual review of management and excluded compensation. For the purposes of determining participant's compensation under Article 9.5, compensation shall include (a) for plan year 2001, lump-sum payments of up to 1.7 percent of regular salary or wages, and minimum awards of \$500 and prorated amounts where applicable, made for Fiscal Year 2000 performance under the TVA

Performance Success Award Plan; (b) for plan years 2001 through 2005, lump-sum payments of up to 3 percent of regular salary or wages (excluding any overtime pay adjustments) made under the Memorandum of Understanding regarding Transition to Multiple Skill Classifications in TVA's River System Operations and Environment organization; and (c) for plan years after 2001, lump-sum payments of up to 6.25 percent of regular salary or wages (excluding any overtime pay adjustments), as approved by TVA, under the TVA Winning Performance Team Incentive Plan. Notwithstanding any other provisions of this plan, the annual compensation of each participant taken into account under the plan for any year shall not exceed the compensation limit established under section 401(a)(17)(B) of the Code, as adjusted for cost-of-living increases in accordance with that section. For any plan year beginning after December 31, 2001, the annual compensation of each participant taken into account in determining allocations shall not exceed \$200,000, as adjusted for cost-of-living increases in accordance with section 401(a)(17)(B) of the Code. Annual compensation means compensation during the plan year or such other consecutive 12-month period over which compensation is otherwise determined under the plan (the determination period). The cost-of-living adjustment in effect for a calendar year applies to annual compensation for the determination period that begins with or within such calendar year.

* * *

423-20 (A-5706). The Board noted its previous notational action approving the formula to calculate the amount TVA contributes to the System to maintain System credit under section 5(3) of the System Rules for TVA employees who are on certain temporary leaves of absence without pay. A copy of the notational approvals is filed as Exhibit 423-20. As a part of this action, the Board approved the following resolution:

WHEREAS section 5(3) of the Rules and Regulations of the TVA Retirement System (System Rules) provide that "a temporary leave of absence without pay not exceeding one year shall not be considered a break in service if TVA shall elect to continue its contributions on account of such member during such period;"

WHEREAS section 5(3) of the System Rules also provides that a leave of absence without pay exceeding one year also will not be considered a break in service "upon special arrangement and the payment of any additional cost thereof by TVA and the member;"

WHEREAS the TVA Board approved continuing to make TVA contributions to the TVA Retirement System (System) on behalf of an employee under the System who is granted leave without pay for any period of time to serve in a full-time position with a labor organization, provided the employee reimburses TVA for TVA's contributions to the System on his or her behalf;

WHEREAS TVA's contributions to the System for TVA employees who are members of the System and who are on temporary leave without pay as described above have historically been calculated by the System, and billed to TVA, for each such member based on the employee's salary they would have earned during the leave without pay period multiplied by a percentage equal to the amount of TVA's annual funding contribution to the System pursuant to section 9B8 of the System, expressed as a percentage of TVA's annual payroll; and

WHEREAS the System Board of Directors (System Board) believes TVA's contributions to the System for these System members should be calculated in a different manner to reflect the cost of funding such members' annual accruals of benefits in the System;

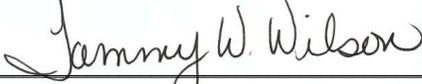
BE IT RESOLVED that TVA's contributions to the System pursuant to section 5(3) of the System Rules shall be calculated for each eligible member based on the employee's salary they would have earned during the leave without pay period multiplied by a percentage equal to the following: the System's normal cost (the cost of one additional year of service), expressed as a percentage of TVA's annual payroll, as determined by the System's actuary, multiplied by 1.25 (representing an additional 25% for the accrued COLA cost for such additional year of service).

* * *

423-21 (A-5709). The Election Committee discussed its continuing process to identify potential candidates to be considered by the Board for its seventh member.

* * *

The meeting was adjourned at 10:45 a.m., EST.



Executive Secretary

Approved:



Chairman