

Meeting No. 439

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

June 8, 2012

(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, June 8, 2012, at 6:00 p.m., EDT, via video and telephone conference.

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The following directors were present: Leslie P. Bays, Chair; Allen E. Stokes, Vice-Chair; Janet C. Herrin; John M. Hoskins; Leonard J. Muzyn; Anthony L. Troyani; and Tammy W. Wilson. Also present were Patrick D. Brackett, Executive Secretary; Pamela K. Ramsey, Assistant Secretary; W. Colby Carter, Legal Counsel; and Eric J. Davis, Program Manager, Investment Management & Risk.

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439-1. Each director was notified in a memorandum dated May 9, 2012, of the regular quarterly meeting to be held on June 8, 2012. A copy of the notice from the Executive Secretary is filed as Exhibit 439-1.

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439-2 (A-5947). After calling the meeting to order, the Chairman appointed Allen Stokes, Vice Chair, to conduct the meeting given the fact that the Chairman was attending via teleconference and the difficulty he would have in conducting the meeting over the phone.

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439-3 (A-5948). The Executive Secretary's report included the following:

- The Executive Secretary provided the Board with an update on the progress of the goals and objectives of the System and System staff for fiscal year 2012 and discussed upcoming work on some of the remaining goals and objectives.

- The Executive Secretary informed the Board that the transition of the cash balance recordkeeping to Hewitt is complete and cash balance members have been notified about this transition and how to access their cash balance account information.
- The Executive Secretary informed the Board that the System has been working on the retirement-related information for the annual TVA personal statement of benefits, which will be made available to employees by the end of June or the first of July.

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439-4 (A-5949). The Legal Counsel's update included the following:

- Bradley Arant Boult Cummings, outside counsel representing the System in the current lawsuit against TVA and the System, discussed with the System Board details regarding the mediator and the upcoming mediation.
- Legal Counsel informed the System Board that the IRS has released guidance on normal retirement age for governmental plans, and as a result, the IRS will proceed to finish up the determination letter process for many governmental plans, including the System and the TVA Savings and Deferral Retirement Plan (401(k) Plan).

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439-5 (A-5950). The Board approved the minutes of Meeting No. 437 held March 16, 2012.

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439-6 (A-5951). The Board approved the minutes of special-called Meeting No. 438 held May 4, 2012.

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439-7 (A-5952). The Board approved a correction of Minute Entry 430-24 for the minutes of Meeting No. 430 held December 17, 2010.

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439-8 (A-5953). The Board accepted the Treasurer's Report for the quarter ending March 31, 2012. A copy of the Treasurer's Report is filed as Exhibit 439-8. This report is available for review at the Retirement Services office.

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439-9 (A-5954). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ending March 31, 2012. A copy of the Investment Performance Report is filed as Exhibit 439-9. This report is available for review at the Retirement Services office.

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439-10 (A-5955). The Board accepted the report of retirements approved for the quarter ending March 31, 2012. A copy of the report is filed as Exhibit 439-10. These reports contain information on individual cases and are not available for review.

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439-11 (A-5956). The Board accepted the Investment Review for the 401(k) Plan prepared by Fidelity Investment Institutional Services Company (Fidelity) for the quarter ending March 31, 2012. A copy of the 401(k) Plan Investment Review is filed as Exhibit 439-11. This report is available for review at the Retirement Services office.

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439-12 (A-5957). The Investment Committee report consisted of the items reported below at A-5958, A-5959, A-5960, and A-5961, and of the following items:

- The Executive Secretary and Assistant Secretary updated the Board on the communications to 401(k) Plan participants of the upcoming removal of the Fidelity Magellan fund and Fidelity International Real Estate fund from the 401(k) Plan investment menu and the mapping of assets from those funds to the age-appropriate Fidelity Target Date fund and DFA Global Real Estate Securities fund, respectively, effective July 2, 2012, and October 2, 2012. A copy of the communication letter sent to 401(k) Plan participants is filed as Exhibit 439-12(a).
- The Board was provided and took note of the quarterly report on manager compliance with investment guidelines. A copy of the report, dated March 31, 2012, is filed as Exhibit 439-12(b).
- The Board was provided and took note of information regarding investment manager asset transfers during the first quarter of 2012. A copy of this information is filed as Exhibit 439-12(c).
- The Board was provided and took note of information on due diligence meetings and conference calls between System staff and investment managers during the quarter. A copy of this information is filed as Exhibit 439-12(d).

- The Board was provided a copy of the presentation summaries from this year's Wilshire consulting client conference. These summaries are filed as Exhibit 439-12(e).
- The Board was provided and took note of the quarterly analysis of 401(k) Plan investment options with respect to the Plan's watch list criteria. A copy of this information is filed as Exhibit 439-12(f).
- The Board was provided an update on the funded status of the System as of May 18, 2012. A copy of the report is filed as Exhibit 439-12(g).

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439-13 (A-5958). The Board was provided information regarding the status of proposed amendments to the System's fee agreements with Pacific Investment Management Company (PIMCO) that will result in lower management fees. No action was taken.

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439-14 (A-5959). At its September 2011 quarterly meeting, the Board approved a new asset allocation policy for the System, which contains a glide path and dynamic de-risking strategy as funded status improves over time (see Minute Entry 435-15). Wilshire presented to the Board for its consideration information regarding certain potential changes to the current asset allocation policy mix until the first funded status trigger point is reached in the glide path of the new dynamic asset allocation policy. No action was taken. A copy of the Wilshire presentation is filed as Exhibit 439-14.

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439-15 (A-5960). Wilshire presented to the Board information regarding proposed changes to the System's historic policy benchmark used in evaluating the relative performance of the System's investments over time. Upon the recommendation of the Investment Committee and the Executive Secretary, the Board approved the proposed adjustments to the System's historic policy benchmark, as presented by Wilshire, to more accurately reflect the actual allocation history of the System's investments. A copy of the Wilshire presentation is filed as Exhibit 439-15.

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439-16 (A-5961). Given the increasing importance of the 401(k) Plan to TVA employees in providing retirement income, the Executive Secretary discussed with the Board the need for an independent consultant to serve as an advisor to the Board on the 401(k) Plan. Wilshire then presented to the Board a proposal to provide advisory services for the 401(k) Plan, including a summary of the firm's defined contribution business. Following a discussion, the Board requested the Executive Secretary to propose one or two additional consulting firms for

the Board to consider in providing advisory services for the 401(k) Plan. A copy of memorandum from the Executive Secretary to the Board regarding a defined contribution plan advisor and Wilshire's proposal for advisory services to the 401(k) Plan are filed as Exhibit 439-16.

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439-17 (A-5962). The Retirement Committee report consisted of the item reported below at A-5963, and of the following items:

- The Board was provided and took note of the quarterly report on System communications, including TVARA website updates, TVARA meetings, TVARS website updates, TVA Today articles, other communications, and future communication initiatives. A copy of the Quarterly Communication Update report is filed as Exhibit 439-17(a).
- The Board was provided information on current 401(k) plan trends. A copy of this information is filed as Exhibit 439-17(b).
- The Board was provided information on a recent 401(k) fee case, *Tussey v. ABB*, which involved a large 401(k) plan with Fidelity as the recordkeeper. Legal Counsel discussed the case with the Board, which included a discussion of fiduciary takeaways for 401(k) plan administration and how Fidelity handles overnight float with respect to TVA's 401(k) Plan. A copy of the information is filed as Exhibit 439-17(c).
- The Board discussed details with regard to a proposed RFP for actuarial services. After the discussion, the Board asked the Executive Secretary to proceed with finalizing a draft RFP which will likely be issued by the System this fall for actuarial services beginning fiscal year 2013.

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439-18 (A-5963). The System currently contracts with Small World Solutions to perform deceased retiree audits of the System's payroll. Upon the recommendation of the Retirement Committee, the Board approved contracting with Small World Solutions to provide the additional service of identifying and cross-checking dates of birth for System members and beneficiaries. A copy of additional service term sheet for one-time verification of dates of births to the System's contract with Small World Solutions is filed as Exhibit 439-18.

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439-19 (A-5964). The Election Committee report consisted of the items reported below at A-5965 and A-5966.

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439-20 (A-5965). After discussion, and upon the recommendation of the Election Committee, the Board voted to approve the 2012 TVARS Election Schedule. Mr. Muzyn recused himself from the discussion of and vote on the election schedule after indicating to the Board his intention to run for reelection in this year's election. A copy of the 2012 TVARS Election Schedule is filed as Exhibit 439-20.

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439-21 (A-5966). At its March 2012 quarterly meeting, the Board selected Allen Stokes for a second term as the seventh Director of the Board beginning November 1, 2012, and ending October 31, 2015. After discussion, and upon the recommendation of the Election Committee, the Board approved a new services agreement with Mr. Stokes and authorized the Executive Secretary to execute this agreement with Mr. Stokes. Mr. Stokes recused himself from the discussion of and vote on the services agreement. A copy of the services agreement with Mr. Stokes is filed as Exhibit 439-21.

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439-22 (A-5967). The Audit Committee report consisted of the items reported below at A-5968, A-5969, and A-5970, and the following items:

- The Audit Committee provided the Board with revised SAS 114 and 115 audit letters from Crowe Horwath for review and discussion. Copies of the audit letters are filed as Exhibit 439-22(a).
- Katherine J. Henry, a partner with Bradley Arant Boult Cummings, met with the Board and presented information regarding fiduciary insurance, directors and officers insurance, and TVA's indemnification relevant to the individuals serving on the System Board and its committees and the System staff.
- The Board was provided and took note of a summary of charges on the System's credit card for the previous quarter.
- The Board was provided and took note of the System Board's travel expenses for the previous quarter.

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439-23 (A-5968). After discussion, and upon the recommendation of the Audit Committee, the Board approved the payment of \$9,490 in additional fees to Crowe Horwath related to its performance of the fiscal year 2011 financial statement audits. The additional fees resulted from additional audit work that was required for certain actuarial adjustments and testing of the cash balance recordkeeping conversion. A copy of information regarding the additional audit fees is filed as Exhibit 439-23.

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439-24 (A-5969). Upon the recommendation of the Audit Committee, the Board voted to approve, and authorized the Executive Secretary to execute an engagement letter with Crowe Horwath to perform the fiscal year 2012 financial statement audits of the System and the 401(k) Plan. A copy of a memorandum from the Executive Secretary to the Board regarding Crowe Horwath's contract and a copy of the engagement letter between Crowe Horwath and the System are filed as Exhibit 439-24.

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439-25 (A-5970). After discussion, and upon the recommendation of the Audit Committee, the Board approved entering into a mediation services agreement with John E. Sands, Arbitrator & Mediator, Roseland, New Jersey, who will serve as the mediator for the parties in the current lawsuit against TVA and the System, and authorized Bradley Arant Boult Cummings to sign the mediation services agreement on behalf of the Board for the System. As a part of its approval, the Board asked the Executive Secretary to do the following: (i) maintain a monthly accounting of fees and expenses incurred under the agreement, (ii) when the mediator meets collectively with other parties in addition to the System, ensure that the fees and expenses are properly split among the parties, and (iii) for every \$100,000 in fees and expenses incurred by the System under the agreement, approach the Board to allow them to internally assess the value of the mediation and the mediation services. A copy of the mediation services agreement with John E. Sands is filed as Exhibit 439-25.

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Following the conclusion of the formal meeting agenda items, Mr. Muzyn made a motion to amend the language in Sections 6I and 7L of the System's Rules and Regulations to clarify that cost-of-living-adjustments (or COLAs) are nonforfeitable. Following a discussion, Mr. Hoskins made a subsidiary motion to defer consideration of the proposed amendments in Mr. Muzyn's motion to the September quarterly meeting to be added to the Retirement Committee agenda for discussion. Following a second to Mr. Hoskins' subsidiary motion, the Board voted 6 to 1 to approve the subsidiary motion. Directors Bays, Herrin, Hoskins, Stokes, Troyani, and Wilson voted in favor of the approval and Director Muzyn voted against the approval. As a result of the approval of the subsidiary motion, no action was required on Mr. Muzyn's original motion.

Board Member statements submitted regarding the vote

Mr. Muzyn's statement:

"The system's rules have clearly stated for decades that benefits derived from TVA's contributions shall be increased by the increase in the CPI for any year after 1966 for which the CPI increases by as much as one percent (Section 6I). However, some TVA executive managers began stating about three or four years ago that they believe the system is not required to pay COLAs. I made my motion in order to rectify this inconsistency by clarifying that the system's rules are the governing factor in determining benefits to be paid. I voted against deferring

consideration of my motion because I believe this inconsistency is very unsettling to the members of the system and has already persisted for far too long.”

Mr. Bays’ statement:

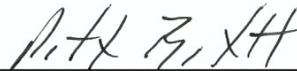
“This motion was a surprise to me and I thought best that we have more time to consider it. I would expect that we would not take this matter lightly.”

Mr. Troyani’s statement:

“A motion of this nature, to be seriously considered, needs to be analyzed and discussed in committee. This item was not on the Board agenda and had not been previously mentioned.”

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The meeting was adjourned at 6:25 p.m., EDT.



Executive Secretary

Approved:



Chair