

Meeting No. 421

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

September 10, 2009

(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 Thursday, September 10, 2009, at 11:07 a.m., EDT, in Conference Room MP 1 N301, Tennessee Valley Authority Chattanooga Office Complex, Chattanooga, Tennessee.

\* \* \*

The following directors were present: Frank E. Alford, Chairman; Leslie P. Bays; 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.

\* \* \*

421-1. Each director was notified in a memorandum dated August 25, 2009, of the regular quarterly meeting to be held on September 10, 2009. A copy of the notice from the Executive Secretary is filed as Exhibit 421-1.

\* \* \*

421-2 (A-5640). There were no items to report from the Chairman.

\* \* \*

421-3 (A-5641). The Executive Secretary's report included the following:

- The Executive Secretary honored Frank Alford, whose term as the 7<sup>th</sup> member expires on October 31, 2009, for his years of service as a director on the Board.
- The Executive Secretary gave a report to the Board on the System's computer servers and recent upgrades, backup procedures for information stored on the computer servers, and the System's internal information services staff. A copy of

an e-mail from the Executive Secretary to the Board dated August 7, 2009, detailing some of this information is filed as Exhibit 421-3.

\* \* \*

421-4 (A-5642). Legal Counsel reported that there were no pending administrative or judicial proceedings to which the System is a party.

\* \* \*

421-5 (A-5643). The Board approved the minutes of Meeting No. 418 held June 2, 2009.

\* \* \*

421-6 (A-5644). The Board approved the minutes of special-called Meeting No. 419 held June 8, 2009.

\* \* \*

421-7 (A-5645). The Board approved the minutes of special-called Meeting No. 420 held August 17, 2009.

\* \* \*

421-8 (A-5646). The Board accepted the Treasurer's Report for the quarter ending June 30, 2009. A copy of the Treasurer's Report is filed as Exhibit 421-8. This report is available for review at the Retirement System office.

\* \* \*

421-9 (A-5647). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ending June 30, 2009. A copy of the Investment Performance Report is filed as Exhibit 421-9. This report is available for review at the Retirement System office.

\* \* \*

421-10 (A-5648). The Board accepted the report of retirements approved for the quarter ending June 30, 2009. A copy of the report, and a copy of summary demographic information regarding retirements for the quarter, are filed as Exhibits 421-10(a) and (b), respectively. This report contains information on individual cases and is not available for review.

\* \* \*

421-11 (A-5649). 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 June 30, 2009. A copy of the 401(k) Plan Investment Review is filed as Exhibit 421-11. This report is available for review at the Retirement System office.

\* \* \*

421-12 (A-5650). The Board accepted the Report of Actuary on the Sixty-Ninth Actuarial Valuation of the TVA Retirement System prepared as of September 30, 2008, by Mercer Human Resource Consulting (Mercer). A copy of the actuarial report is filed as Exhibit 421-12. This report is available for review at the Retirement System office.

\* \* \*

421-13 (A-5651). The Investment Committee report consisted of the items reported below at A-5652 and A-5653, and of the following items:

- Wilshire presented to the Board a proposed plan for the strategic investment of 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 new asset allocation policy (see Minute Entry 418-13). After discussion, the Board took no action but requested additional information on this and other possible transition plans. A copy of Wilshire's proposed plan is filed as Exhibit 421-13(a).
- After discussion regarding the recent amendment to the System's Rules and Regulation adding an independent investment professional as a non-voting member to the Investment Committee, the Board agreed to form a sub-group of the Committee to develop a process for evaluating and selecting such member.

\* \* \*

421-14 (A-5652). Wilshire presented to the Board a proposed plan to begin to transition the System's assets into its new asset allocation policy. After discussion and upon the recommendation of the Investment Committee and the Executive Secretary, the Board approved the plan and authorized the Executive Secretary to take any actions necessary to transition the System's assets pursuant to the plan. A copy of Wilshire's proposed plan is filed as Exhibit 421-14.

As a part of the approved transition plan, the Board took the following additional actions:

- The Board voted to terminate the investment management agreement between Alliance Capital Management L.P. (AllianceBernstein) and the System and to

authorize the Executive Secretary to take any actions necessary to effect this action, including the use of Mellon Transition Management to transition the assets in the portfolio (approximately \$240 million) from AllianceBernstein to Mellon Capital Management to investment evenly between the Mellon Capital Russell 1000 Index fund (approximately \$120 million) and the Mellon Capital Non-U.S. Equity Index fund (approximately \$120 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 enter into investment management agreements; and

WHEREAS the System Board selected Alliance Capital Management L.P. (AllianceBernstein) as an investment manager of global equities on November 15, 2004;

WHEREAS the November 15, 2004, investment management agreement between AllianceBernstein 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 AllianceBernstein be terminated;

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

- The Board authorized the Executive Secretary to work with Wilshire to add a Passive Core Fixed Income assignment and to search for and identify potential managers to invest a portion of the System's assets using a Passive Core Fixed Income strategy.
- The Board voted to close the Core Fixed Income and the U.S. Equity Index Plus portfolios managed by Western Asset Management Company (WAMCO). Assets will be reallocated to other core fixed income managers, WAMCO's Absolute Return portfolio, and a new investment grade credit portfolio managed by WAMCO. The Board authorized the Executive Secretary to work with Wilshire and take any necessary actions to effect these actions over a reasonable period of time.
- The Board voted to close the Core Fixed Income account managed by BlackRock Financial Management Inc. (approximately \$55 million) and authorized the

Executive Secretary to take any actions necessary to reallocate these assets within the Fixed Income portfolio, including the Passive Core Fixed Income space.

- The Board voted to revise the investment guidelines of its Core Plus Fixed Income portfolio managed by Pacific Investment Management Company to move it to a Core Fixed Income portfolio.
- In continuation of the previously approved transition of the System's portfolio from Smith Breeden Associates, Inc. (Smith Breeden) to TCW Asset Management Company (TCW) (see Minute Entry 416-22), the Board voted to (i) move approximately \$34 million currently in TCW's legacy account, and any future cash, that it has received or will receive into a cash account and reallocate it consistent with the System's asset allocation policy, and (ii) authorize the Executive Secretary to take any actions necessary to effect this reallocation.

\* \* \*

421-15 (A-5653). The Board was provided and took note of the quarterly report on manager compliance with investment guidelines. A copy of the report, dated June 30, 2009, is filed as Exhibit 421-15. This report is available for review at the Retirement System office.

\* \* \*

421-16 (A-5654). The Retirement Committee report consisted of the items reported below at A-5655, A-5656 and A-5657, and of the following item:

- After consideration of a presentation by Fidelity, the administrator of the 401(k) Plan, upon the recommendation of the Retirement Committee, the Board approved the following participant communication changes to the 401(k) Plan: (i) the default for new 401(k) participants will be to receive all 401(k) account and related statements on-line with the option to elect paper statements, and (ii) current participants who have not selected a statement delivery preference will be moved to on-line statements with the option to elect to continue to receive paper statements. A copy of Fidelity's presentation is filed as Exhibit 421-16. This report is available for review at the Retirement System office.

\* \* \*

421-17 (A-5655). Upon the recommendation of the Retirement Committee, the Board approved the engagement of Mercer Human Resource Consulting (Mercer) to perform actuarial services for the System for fiscal year 2010 and authorized the Executive Secretary to execute any necessary documents to effect this engagement. A copy of Mercer's Statement of Work (SOW) for Ongoing Actuarial Services for FY 2010 is filed as Exhibit 421-17.

\* \* \*

421-18 (A-5656). The Board voted to approve, and authorized the Executive Secretary to execute, a three-year extension to the System's contract with Robert W. Myers, M.D. to provide services as a member of the System's Independent Medical Board. A copy of a memorandum from the Executive Secretary to the Board, dated September 3, 2009, and copy of the contract are filed as Exhibits 421-18(a) and (b), respectively.

\* \* \*

421-19 (A-5657). This item was moved to the report of the Audit Committee (see Minute Entry 421-21).

\* \* \*

421-20 (A-5658). The Election Committee reported to the Board, and the Board noted, that Leonard Muzyn received a majority of the votes cast by System members in the initial election for Board director and has been elected, without the need for a runoff election, to serve as Board director for a three-year term running from November 1, 2009, through October 31, 2012. A copy of a memorandum on the initial election results from the Executive Secretary to the Board, dated August 31, 2009, and a supporting document, are filed as Exhibits 421-20(a) and (b), respectively.

\* \* \*

421-21 (A-5659). The Audit Committee report consisted of the item reported below at A-5660 and of the following items:

- Upon the recommendation of the Audit Committee, the Board voted to approve spending up to \$42,000 to produce the System's 2009 Annual Report. A copy of a memorandum from the Executive Secretary to the Board, dated September 3, 2009, regarding the projected expenses for the System's 2009 Annual Report is filed as Exhibit 421-21.
- After a discussion, and upon the recommendation of the Audit Committee, the Board voted to authorize the Executive Secretary to work with TVA's Office of the General Counsel, the TVA Police, and TVA's Procurement Division, to conduct appropriate background checks on key personnel of the System's investment managers that hold assets in non-custodial accounts.

\* \* \*

421-22 (A-5660). Upon the recommendation of the Audit Committee, the Board voted to approve an engagement letter with Crowe Horwath LLP (Crowe Horwath) to audit the System's financial statements for the fiscal year ending September 30, 2009, and to authorize the Executive Secretary to enter into such engagement letter on behalf of the Board. A copy of the engagement letter between Crowe Horwath and the System is filed as Exhibit 421-22.

\* \* \*

The meeting was adjourned at 12:20 p.m., EDT.

\_\_\_\_\_  
original signed by Tammy W. Wilson

Executive Secretary

Approved:

\_\_\_\_\_  
original signed by Tammy W. Wilson for Frank Alford

Chairman