

POST TO BULLETIN BOARD

Meeting No. 426

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.)

September 17, 2010

The regular quarterly meeting of the Board of Directors (Board) of the TVA Retirement System (System) was held on Friday, September 17, 2010, at 11:00 a.m., CDT, in the Ensemble Room, Hampton Inn and Suites, 310 4th Avenue South, Nashville, Tennessee.

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

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426-1. Each director was notified in a memorandum dated September 2, 2010, of the regular quarterly meeting to be held on September 17, 2010. A copy of the notice from the Executive Secretary is filed as Exhibit 426-1.

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426-2 (A-5733). The Chairman noted the dismissal of the lawsuit against the individual Board members but stated that he expects the lawsuit to be amended and re-filed against the System as set forth in the judge's order.

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426-3 (A-5734). The Executive Secretary's report included the following:

- The Executive Secretary informed the Board that Fidelity Investments will be opening a Fidelity investor center in the Turkey Creek area in Knoxville on November 8, which will be available to all TVA employees.
- The Executive Secretary told the Board that he and the System staff are reaching out to establish relationships with the largest institutional players in Tennessee, which included a recent meeting with the Vanderbilt endowment.
- The Executive Secretary stated that he would like the Board to evaluate and provide feedback on the System staff's performance goals for FY 2011.

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426-4 (A-5735). Legal Counsel informed the Board that an IRS reviewer has been assigned to the System's applications for new determination letters as to the tax-qualified status of the System and the TVA Savings and Deferral Retirement Plan (401(k) Plan). The IRS reviewer has provided comments and requested additional information with respect to the plans and the plan documents to which Legal Counsel will respond.

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426-5 (A-5736). The Board approved the minutes of Meeting No. 425 held June 4, 2010.

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426-6 (A-5737). The Board accepted the Treasurer's Report for the quarter ending June 30, 2010. A copy of the Treasurer's Report is filed as Exhibit 426-6. This report is available for review at the Retirement System office.

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426-7 (A-5738). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ending June 30, 2010. A copy of the Investment Performance Report is filed as Exhibit 426-7. This report is available for review at the Retirement System office.

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426-8 (A-5739). The Board accepted the report of retirements approved for the quarter ending June 30, 2010. A copy of the report, and a copy of summary demographic information regarding retirements for the quarter, are filed as Exhibits 426-8(a) and (b), respectively. This report contains information on individual cases and is not available for review.

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426-9 (A-5740). 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, 2010. A copy of the 401(k) Plan Investment Review is filed as Exhibit 426-9. This report is available for review at the Retirement System office.

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426-10 (A-5741). The Board accepted the Report of Actuary on the Seventieth Actuarial Valuation of the TVA Retirement System prepared as of September 30, 2009, by Mercer Human Resource Consulting (Mercer). A copy of the actuarial report is filed as Exhibit 426-10. This report is available for review at the Retirement System office.

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426-11 (A-5742). The Investment Committee report consisted of the items reported below at A-5743, A-5744, A-5745, A-5746, A-5747, A-5748, A-5749, A-5750, A-5751, A-5752, A-5753, and A-5754.

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426-12 (A-5743). 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, 2010, is filed as Exhibit 426-12. This report is available for review at the Retirement System office.

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426-13 (A-5744). The Board noted its previous notational action approving, upon the recommendation of Wilshire, the Investment Committee and the Executive Secretary, the selection of Kennedy Wilson as a private real estate manager and a commitment of \$20 million to Kennedy Wilson's Property Fund III. The System has a 5% asset allocation target to private real estate, of which 70% is core, 15% is value added, and 15% is opportunistic. The investment in the KW Property Fund III will be part of the "value added" allocation to private real estate. As a part of this action, 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 private real estate investment portfolios and partnerships and have recommended that the System Board designate and select Kennedy Wilson 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 Kennedy Wilson 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 Kennedy Wilson;

RESOLVED further, That the System Board hereby authorizes the Executive Secretary to approve and to execute a subscription agreement, partnership agreement and other related documents necessary to effect the transition of the assets with Kennedy Wilson.

A copy of an e-mail and attachments from the Executive Secretary to the Board, dated July 1, 2010, describing the KW Property Fund III investment, along with the Board members' notational votes, is filed as Exhibit 426-13.

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426-14 (A-5745). The Board noted its previous notational action amending its previous approval with respect Kennedy Wilson, a private real estate manager (see Minute Entry 426-13), to commit of \$10 million to Kennedy Wilson's Property Fund III and \$10 million to Kennedy Wilson's Property Fund IV. A copy of a memorandum dated September 7, 2010, and an e-mail dated July 23, 2010, from the Executive Secretary to the Board, along with the Board members' notational votes, is filed as Exhibit 426-14.

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426-15 (A-5746). Upon the recommendation of the Executive Secretary and the Investment Committee, the Board approved an annual subscription to the Bloomberg financial information service for use by the System staff to better analyze, audit, and manage the System assets. A copy of a memorandum dated September 7, 2010, from the Executive Secretary to the Board regarding the Bloomberg service is filed as Exhibit 426-15.

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426-16 (A-5747). The Board discussed a presentation from Wilshire regarding optimal allocations among the System's U.S. small cap equity managers, both existing and newly approved. After the discussion, and upon the recommendation of Wilshire, the Investment Committee, and the Executive Secretary, the Board voted to approve the U.S. small cap equity targets recommended in Wilshire's presentation, and to authorize the Executive Secretary the flexibility to work toward these targets among the managers over a reasonable and appropriate period of time. A copy of Wilshire's presentation is filed as Exhibit 426-16. This report is available for review at the Retirement System office.

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426-17 (A-5748). The Board discussed a presentation from Wilshire regarding optimal allocations among the System's international equity managers, both existing and newly approved. After the discussion, and upon the recommendation of Wilshire, the Investment Committee, and the Executive Secretary, the Board voted to approve the international equity targets recommended in Wilshire's presentation, and to authorize the Executive Secretary the flexibility to work toward these targets among the managers over a reasonable and appropriate period of time. A copy of Wilshire's presentation is filed as Exhibit 426-17. This report is available for review at the Retirement System office.

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426-18 (A-5749). Upon the recommendation of Wilshire, the Investment Committee, and the Executive Secretary, the Board voted to terminate the Fixed Income Global Opportunities (FIGO) portfolio managed by BlackRock Financial Management Inc., and to authorize the Executive Secretary to take any actions necessary to effect this action. The funds from the liquidation of the BlackRock FIGO account will be allocated to other fixed income portfolios and private real estate with the less liquid fixed income security holdings being transferred to Guggenheim Partners. As a part of this action, 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 previously selected BlackRock Financial Management Inc. (BlackRock), as an investment manager of a Fixed Income Global Opportunities portfolio; and

WHEREAS the investment management agreement between BlackRock 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 BlackRock be terminated;

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

A copy of a memorandum, dated September 7, 2010, from the Executive Secretary to the Board with information regarding BlackRock is filed as Exhibit 426-18.

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426-19 (A-5750). The Board previously voted to close the Core Fixed Income and the U.S. Equity Index Plus portfolios managed by Western Asset Management Company (WAMCO) (see Minute Entry 421-14). Upon the recommendation of Wilshire, the Investment Committee, and the Executive Secretary, the Board voted to amend the reallocation of the liquidated assets from these portfolios and to approve giving the Executive Secretary the discretion and flexibility to delay the close of the account and reallocate these assets in a prudent manner over a reasonable period of time, which may include investing the assets in other core or core plus portfolios, using a portion of the assets to adjust portfolio weights closer to policy targets, and/or transferring less liquid fixed income security holdings to Guggenheim Partners. A copy of a memorandum, dated September 7, 2010, from the Executive Secretary to the Board with information regarding this request is filed as Exhibit 426-19.

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426-20 (A-5751). The Board previously voted to close the Core Fixed Income account managed by BlackRock Financial Management Inc. (see Minute Entry 421-14). Upon the recommendation of Wilshire, the Investment Committee, and the Executive Secretary, the Board voted to amend the reallocation of the liquidated assets from this account and to approve giving the Executive Secretary the discretion and flexibility to reallocate these assets in a prudent manner over a reasonable period of time, which may include investing the assets in other core or core plus portfolios, using a portion of the assets to adjust portfolio weights closer to policy targets, and/or transferring less liquid fixed income security holdings to Guggenheim Partners. A

copy of a memorandum, dated September 7, 2010, from the Executive Secretary to the Board with information regarding this request is filed as Exhibit 426-20.

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426-21 (A-5752). Upon the recommendation of the Investment Committee and the Executive Secretary, the Board voted to give the Executive Secretary the discretion and flexibility to assess the liquidity of various accounts across the System's investment portfolio in order to make strategic decisions as to which assets to sell to meet the System's monthly benefit payment obligations during fiscal year 2011. A copy of a memorandum, dated September 7, 2010, from the Executive Secretary to the Board with information regarding this request is filed as Exhibit 426-21.

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426-22 (A-5753). Prudential Real Estate Investors (Prudential) is a current private real estate manager of the System, which the Board selected in December 2007 with initial funding of \$40 million to the PRISA open-end, commingled, core real estate fund managed by Prudential. In order to continue to move toward the target policy allocation for core real estate, upon the recommendation of Wilshire, the Investment Committee, and the Executive Secretary, the Board voted to allocate an additional \$80 million to the PRISA fund by the end of September 2010. A copy of a memorandum, dated September 16, 2010, from Wilshire to the Board with information regarding private real estate allocations is filed as Exhibit 426-22.

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426-23 (A-5754). The Board and the System staff were presented an update from Wilshire on the status of the Asset Liability Valuation (ALV) study being performed by Wilshire, which has been delayed until Wilshire's 2011 capital market assumptions are available. A copy of a memorandum, dated September 16, 2010, from Wilshire to the Board with information on the ALV study is filed as Exhibit 426-23.

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426-24 (A-5755). The Retirement Committee report consisted of the items reported below at A-5756 and A-5757, and of the following item:

- After consideration of a presentation by Mercer Human Resource Consulting (Mercer), the System's actuary, upon the recommendation of Mercer, the Retirement Committee, and the Executive Secretary, the Board approved the following changes to the System's actuarial assumptions: (i) change in the mortality table for retirements from the RP-2000 to the RP-2000 looking forward 3 years (to 2013) in order to reflect future mortality improvement, and (ii) decrease in the expected rate of return on assets by 25 basis points from 7.75% to 7.5%. A copy of Mercer's presentation with actuarial assumption change recommendations is filed as Exhibit 426-24.

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426-25 (A-5756). Upon the recommendation of the Retirement Committee and the Executive Secretary, the Board approved the engagement of Mercer Human Resource Consulting (Mercer) to perform actuarial services for the System for fiscal year 2011 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 2011 is filed as Exhibit 426-25.

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426-26 (A-5757). The Board was presented with a proposal from the System staff to outsource the recordkeeping of the cash balance plan. Following some discussion, action on this proposal was deferred to a later meeting. A copy of a memorandum, dated September 7, 2010, from the Executive Secretary to the Board on the recordkeeping proposal is filed as Exhibit 426-26.

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426-27 (A-5758). The Election Committee report consisted of the item reported below at A-5759.

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426-28 (A-5759). The Election Committee reported to the Board, and the Board noted, that Les Bays 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, 2010, through October 31, 2013. A copy of a memorandum on the initial election results from the Executive Secretary to the Board, dated August 31, 2010, and a supporting document, are filed as Exhibits 426-28(a) and (b), respectively.

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426-29 (A-5760). The Audit Committee report consisted of the item reported below at A-5761.

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426-30 (A-5761). The Board discussed potential consultants to provide a fiduciary training and governance workshop for the Board. No action was taken.

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The meeting was adjourned at 12:15 p.m., CDT.

original signed by Patrick D. Brackett

Executive Secretary

Approved:


Chairman