

Meeting No. 440

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

September 20, 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 Thursday, September 20, 2012, at 12:23 p.m., EDT, at the Chattanooga Hotel, 1201 Broad Street, Chattanooga, Tennessee.

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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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440-1 Each director was notified in a memorandum dated August 20, 2012, of the regular quarterly meeting to be held on September 20, 2012. A copy of the notice from the Executive Secretary is filed as Exhibit 440-1.

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440-2 (A-5971). The Chairman reported that he attended the Tennessee Valley Authority Retirees Association annual picnic in Guntersville, Alabama. The Chairman also thanked the Board and staff for their diligence and participation in the long day of committee meetings the previous day.

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440-3 (A-5972). The Executive Secretary's report included the following:

- The Executive Secretary noted that Hewitt EnnisKnupp had been canceled from the agenda the previous day in order to provide time for discussions with the System's actuary, Mercer, and outside legal counsel, Bradley Arant Boult Cummings. Hewitt EnnisKnupp was scheduled to facilitate Board and Executive Secretary annual

evaluations. They will be rescheduled to facilitate evaluations sometime before the Board's December meeting.

- The Executive Secretary reminded the Board that the next quarterly meeting is scheduled for December 6th and 7th in Nashville.

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440-4 (A-5973). The Legal Counsel's update included the following:

- Bradley Arant Boult Cummings, outside legal counsel representing the System in the current lawsuit against TVA and the System, discussed with the System Board issues regarding the lawsuit.
- Internal 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). Counsel has received one question from the IRS reviewer and will respond.

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440-5 (A-5974). The Board noted its previous notational action approving the minutes and transcript of Meeting No. 439 held June 8, 2012.

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440-6 (A-5975). The Board noted its previous notational action approving a cost sharing arrangement with TVA for analysis performed by the System's actuary, Mercer.

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440-7 (A-5976). The Board accepted the Treasurer's Report for the quarter ending June 30, 2012. A copy of the Treasurer's Report is filed as Exhibit 440-7. This report is available for review at the Retirement Services office.

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440-8 (A-5977). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ending June 30, 2012. A copy of the Investment Performance Report is filed as Exhibit 440-8. This report is available for review at the Retirement Services office.

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440-9 (A-5978). The Board accepted the report of retirements approved for the quarter ending June 30, 2012. A copy of the report is filed as Exhibit 440-9. These reports contain information on individual cases and are not available for review.

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440-10 (A-5979). The Board accepted the Investment Review for the 401(k) Plan prepared by Fidelity Investment Institutional Services Company (Fidelity) for the quarter ending June 30, 2012. A copy of the 401(k) Plan Investment Review is filed as Exhibit 440-10. This report is available for review at the Retirement Services office.

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440-11 (A-5980). The Board accepted the Report of Actuary on the Seventy-Second Actuarial Valuation of the TVA Retirement System prepared as of September 30, 2011. A copy of the System's seventy-second Actuarial Valuation is filed as Exhibit 440-11. This report is available for review at the Retirement Services office.

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440-12 (A-5981). The Investment Committee report consisted of the items reported below at A-5982, and A-5983, and of the following items:

- The Board was provided and took note of the status of litigation involving the System's trustee, BNY Mellon. A copy of the report is filed as Exhibit 440-12(a).
- The Board was provided a draft Request for Proposal for a defined contribution plan advisor. A copy of the draft is filed as Exhibit 440-12(b).
- The Board was provided and took note of Wilshire Private Markets Group notification that they would be exercising their ability to extend the private equity partnership an additional year as provided for in the limited partnership agreement. A copy of this information is filed as Exhibit 440-12(c).
- The Board was provided and took note of information regarding litigation involving one of the System's private equity limited partnership investments, The Huff Energy Fund. A copy of this information is filed as Exhibit 440-12(d).
- 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, 2012, is filed as Exhibit 440-12(e).
- The Board was provided and took note of information regarding investment manager asset transfers during the second quarter of 2012. A copy of this information is filed as Exhibit 440-12(f).

- 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 440-12(g).
- 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 440-12(h).
- The Board was provided and took note of a staff report of monthly economic indicators. A copy of the report is filed as Exhibit 440-12(i).
- The Board was provided and took note of a report giving the status and performance of the System's asset allocation to a 'Tail Risk' strategy managed by Pacific Investment Management Company. A copy of this report is filed as Exhibit 440-12(j).
- The Board was provided an update on the funded status of the System as of August 31, 2012. A copy of the report is filed as Exhibit 440-12(k).

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440-13 (A-5982). After discussion, and upon the recommendation of the Investment Committee, the Board voted to approve, and authorized the Executive Secretary to execute, an amendment to the Fee Agreement with Pacific Investment Management Company. The amendment will result in fee reductions for the management of the large capitalization equity overlay account and the small capitalization equity overlay account. A copy of the memo from the Executive Secretary to the Board recommending this action is filed as Exhibit 440-13.

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440-14 (A-5983). 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. The Board approved Policy IIA on page 6 of the Wilshire presentation resulting in policy allocations of: 37.8% global equity; 10% private equity; 27.2% fixed income; 15% public real assets; and 10% private real assets. The Board also reviewed the current Investment Policy Statement, including the current re-balancing bands. The Board requested that a revised Investment Policy Statement be presented for approval at the next quarterly meeting. A copy of the Wilshire presentation is filed as Exhibit 440-14.

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440-15 (A-5984). The Retirement Committee report consisted of the items reported below at A-5985, A-5986, A-5987, 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 440-15(a).
- The Board was provided information on the Variable Annuity fund and various related statistics. A copy of this information is filed as Exhibit 440-15(b).
- The Board received an update from staff and Fidelity Investments regarding 401(k) Plan fee disclosure. Fidelity's current disclosure service is structured around the Department of Labor's regulatory requirements under ERISA. The SEC made a special exemption to its rules for ERISA covered plans. The SEC has not extended its special exemption to administrators of non-ERISA plans. Without SEC relief for non-ERISA plans, Fidelity will not be able to produce a compliant notice in 2012 and will require additional development. A copy of the information is filed as Exhibit 440-15(c).
- The Board reviewed and discussed a draft RFP for actuarial services. After the discussion, the Board asked the Executive Secretary to proceed with finalizing the RFP which will likely be issued by the System this fall for actuarial services beginning fiscal year 2014. A copy of the information is filed as Exhibit 440-15(d).
- Non-forfeiture of cost of living allowances was discussed, no action was taken.

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440-16 (A-5985). The Board postponed discussion of retirement credit for lump sum payments in lieu of base salary increases until a later meeting.

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440-17 (A-5986). After discussion and upon the recommendation of the Retirement Committee and the Executive Secretary, the Board approved a one year extension of the engagement of Mercer to perform ongoing actuarial services for fiscal year 2013, subject to the existing engagement letter dated May 7, 2009, and authorized the Executive Secretary to execute any necessary documents to effect this engagement. A copy of Mercer's Statement of Work for ongoing actuarial services is filed as Exhibit 440-17.

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440-18 (A-5987). After discussion and upon the recommendation of Mercer and the

Retirement Committee, the Board approved actuarial assumptions to be used in the valuation of the System's liability as of September 30, 2012. A copy of Mercer's presentation is filed as Exhibit 440-18.

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440-19 (A-5988). The Election Committee report consisted of the item reported below at A-5989.

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440-20 (A-5989). The Election Committee presented, and the Board accepted, the results of the election that ended August 29, 2012 Leonard Muzyn received 77.78% of the votes to win re-election to the System Board for a new three-year term from November 1, 2012, through October 31, 2015. Overall voter participation exceeded forty percent of employees. A copy of the memorandum from the Executive Secretary, dated August 31, 2012, with the election results is filed as Exhibit 440-20.

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440-21 (A-5990). The Audit Committee report consisted of the items reported below.

Upon the recommendation of the Audit Committee, the Board voted to approve, and authorized the Executive Secretary to execute, a 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 Service Organization Control Report (SOC1) for the period ending July 31, 2013. A copy of the contract is filed as Exhibit 440-21.

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440-22 (A-5991) Upon the recommendation of the Audit Committee, the Board voted to approve, and authorized the Executive Secretary to execute, a contract with E.H. Johnson & Company, P.C., for the purpose of applying certain agreed upon procedures dealing principally with testing the operating effectiveness of selected internal controls of the System, not addressed in the Service Organization Control audit, for the period ended September 30, 2012. A copy of the contract is filed as Exhibit 440-22.

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The Audit Committee report also consisted of the following items.

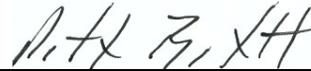
- The Board received a legal update from external Counsel, Bradley Arant Boult Cummings.
- The Board received an update on the status of obtaining price quotes and policy options related to fiduciary liability insurance. Katherine J. Henry, a partner with

Bradley Arant Boult Cummings, met with the Board and presented information regarding fiduciary insurance at the June quarterly meeting.

- The Board postponed their self evaluation to a later meeting.
- The Board postponed the Executive Secretary evaluation to a later meeting.
- The Board postponed the discussion of Committee Charters to a later meeting.
- 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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The meeting was adjourned at 12:37 p.m., EDT.



Executive Secretary



Chairman