FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 16, 2007

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 16, 2007, at 9:08 a.m., Eastern Time. The meeting was open to the public at the Board's offices at 1250 H Street, N.W., Washington, D.C. In attendance were Thomas A. Fink of Alaska, member; Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member; Gregory T. Long, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Mark A. Hagerty, Chief Information Officer; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; and Thomas J. Trabucco, Director, External Affairs.

1. Approval of the minutes of the March 19, 2007 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the March 19, 2007 Board member meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board member meeting held on March 19, 2007, be approved.

2. Thrift Savings Plan activity report by the Executive Director.

a. Monthly Participation Activity.

Mr. Long reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). He noted that the plan was over the $213 billion mark.

Chairman Saul asked what the assets were at the end of December and was told $203-204 billion. Mr. Saul noted that $10 billion in one quarter translates to $40 billion per year. This means the plan could hit $300 billion in two years rather than the three years he had anticipated. We need to plan to ensure we have the capability to handle this growth.

Mr. Long reported that the Plan has approximately 3,735,000 participants. This represents a growth of approximately 140,000 participants in one year. This will lead to an even greater cash flow into the Plan. Chairman Saul said that the challenge will be keeping up with this. Mr. Long noted that the uniformed services' participation rates increased from 24.3 percent to 24.6 percent and that the active duty Navy's participation rate was approaching 50 percent.

b. Legislative Report.

Mr. Trabucco reported that Congress had been in recess and that there was little activity to report on the divestiture bills that had been introduced. The divestment bill for Darfur is H.R. 180. The Iran Energy Sector Divestment bill is H.R. 1357. He expects Congress to introduce a bill requiring divestiture from countries that sponsor terrorism.

All members, except one, of the Employee Thrift Advisory Council, have been appointed since the last meeting. We've reached out in particular to the representative from the Department of Defense in order to become more engaged with them. Mr. Long worked with Navy and Marine Corps news and did a piece that will be distributed at bases worldwide. The Chief of Naval Operations had just done a similar piece promoting participation in the TSP.

2. Review of Deloitte & Touche Semi-Annual Financial Report.

Melissa Krause presented the results of Deloitte and Touche's review of the Agency's financial statements. Deloitte and Touche concluded that the Agency's financial statements fairly presented the net assets and the changes in net assets and were in conformity with accounting principles generally accepted in the United States. The scope of the work was similar to prior years and was performed at the FRTIB, SI International (Fair Oaks), Switch & Data (Pittsburgh), and SunGard (Birmingham). The March 26, 2007 memorandum of Deloitte and Touch (attached) was an unqualified clean opinion.

Chairman Saul asked Ms. Krause to comment on the Agency's controls. She responded that the CFO's efforts to document the internal control processes and structures was encouraging. Deloitte and Touche has been updated on the status of this work but has yet to validate it. Mr. Long stated that

we ware working on implementing OMB Circular 123 and that Mr. Petrick is leading these efforts. Mr. Petrick added that we have purchased software to monitor controls, done training, have monthly meetings, and will report to the Board in October. The software will allow us to put all controls in one place and to identify any gaps. Mr. Duquette of Deloitte and Touche remarked that he had provided A-123 training to Agency personnel.

Mr. Fink remarked that the financial statement showed that investment expenses were double the amount charged in 2005. He assumed that this was due to higher turnover, but that the new split on fees should offset this. He then noted that administrative expenses were $14 million less in 2006 than in 2005 and asked whether this was partially due to a $3 million increase in forfeitures to the Plan since forfeitures are used to offset administrative expenses. Mr. Petrick stated he believed the numbers listed were not offset by forfeitures, but he would confirm this.

2. Quarterly Reports.

a. Investment Policy Review.

Ms. Ray reviewed the April 5, 2007 memorandum (attached), on the performance of the G, F, C, S, I, and L Funds through March 2007.

She noted that $1.6 billion was traded in the C Fund in March, $1.4 billion was traded in the S Fund in March, and $3.3 billion was traded in the I Fund in March. The large amount traded was caused by falling markets. In fact, $865 million was traded in the I Fund on March 5th. We had a trading credit of almost $1 million. This was largely caused by the March 5th transaction costs. We make I Fund trades the next day and the markets opened strongly on March 6th, resulting in a credit of $8 million. That is, the participants placed orders when the market was low, but the actual transaction occurred when the market was higher. It could have easily gone the other way. Chairman Saul remarked that TSP participants should not be day traders. Mr. Long replied that we are looking at this issue.

Mr. Whiting asked how many participants retire per day. Mr. Long replied 4 to 5 thousand per month. Ms. Moran added that this does not mean that money is leaving the TSP because separated participants have the option of leaving their money in the TSP. Chairman Saul stated that these large trades

were caused by market conditions; participants became scared when the markets dropped. Mr. Sanchez stated that this shows the need for continued education efforts on the importance of long-term investing. Mr. Fink stated that he would like to know how many participants retire per year.

Ms. Ray noted that there were 268 thousand inter-fund transfers in March; this exceeded the previous monthly high of 240 thousand. Chairman Saul asked whether these volumes stressed the system. Mr. Hagerty remarked that it did, but that the system was able to process all transactions on a timely basis. We are looking at long term solutions to ensure that investments are never delayed. Chairman Saul remarked that the system must be capable of responding to a macro event. The recent market downturn was not a major event. A market downturn of 10-15 percent would be a major event. He asked how the system would respond to such an event. Mr. Hagerty replied that we have already hired IBM to ensure that the system has adequate capacity for continued growth. Chairman Saul stated that he would like to have a report on this at the next meeting.

Ms. Moran noted that the March Board meeting minutes included a chart showing withdrawal trends over the last three years. Mr. Long stated that it will give a sense of how much they have grown over time. Mr. Hagerty remarked that we could increase the systems capacity in the short term. At present, only three-fifths of the system is turned on. We don't use the rest because to do so is expensive and currently not necessary. IBM could turn on the rest very quickly. Mr. Whiting asked if there was a world-wide event, are we sure IBM would be able to promptly respond to our request. Mr. Hagerty replied that these are the very issues we are currently addressing with IBM. Mr. Whiting asked what the Agency did in response to the attacks of September 11, 2001. Mr. Petrick replied that the TSP was monthly valued in 2001 and that the markets were closed for a few days after September 11th. A daily valued plan is very different from a monthly valued plan. Chairman Saul stated that we need a short term plan to respond to a large upturn or downturn in the markets.

Ms. Ray returned to her report and noted that, since inception, the L Funds have outperformed the C and G Funds. Last month, $206 million went into the L Funds—13 percent of the month's contributions. Currently, almost $19 billion is invested in the L Funds. Proxy voting was done properly.

After this discussion, the members made, seconded, and adopted the following resolution by unanimous vote:

RESOLUTION

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 et seq.) provides that the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f)(1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

Chairman Saul asked whether the system could handle 4 to 5 times average daily volume. He was told that it could probably handle 4 times. He asked what if volumes exceeded 4 times and was told it might delay investments and that we are examining using Pittsburgh as a parallel operating site if such an event occurred.

b. Quarterly Vendor Review.

Mr. Petrick reviewed his April 5, 2007 memorandum entitled "Quarterly Financial Assessment of TSP's Primary Vendors—April 2007." Attached.

SI International continued its strong financial performance and growth through acquisition and new government contracts. We met with SI's president to discuss the goodwill item shown on their balance sheet. It reflects their acquisition of other companies and is required to be shown on their books. Approximately 90 percent of the assets they acquire is goodwill. SI returns exceed its long-term planning standard of 20 percent. We have no concerns regarding SI International.

We continue to monitor Spherix due to its losses in BioSpherix, which were larger last year than in prior years. We have been assured that these losses do not affect InfoSpherix and that they are financed by lines of credit. InfoSpherix's assets will not be used to cover these losses. We will continue to monitor this.

Barclays continues to look strong. A possible merger with the Dutch Bank, ABM, has been reported in the press. Mr. Sanchez remarked that ABM operates in the U.S. as LaSalle Bank. This is all speculative now, but the acquisition could make Barclays so big that they could not be subject to acquisition. Ms. Ray added that the Royal Bank of Scotland was also attempting to acquire ABM.

Switch and Data had a successful IPO in February and that it has been able to pay down its debt. The IPO was ahead of schedule and that fact is a good sign. It took in about $153 million and used about $100 million to pay down its debt of $139 million. It will use the remaining amount to continue its business plan. Mr. Fink asked whether the balance sheet reflects the IPO and was told that it does not.

RR Donnelly has continued to make acquisitions and has very strong financials. We have no concerns regarding RR Donnelly.

MetLife's insurance ratings are all very good. Financial strength is the top criterion we use when we choose an annuity provider. MetLife is obviously one of the strongest insurance companies.

5. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting for a discussion of internal personnel matters.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 12:00 p.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Secretary

NOTE: Ace-Federal Reporters, Inc. made a verbatim transcript of this meeting.

Attachments

1. Thrift Savings Fund Statistics
2. Quarterly Performance Review - G, F, C, S, and I Funds
3. Quarterly Financial Assessment of TSP's Primary Vendors—April 2007