



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD  
77 K Street, NE Washington, DC 20002

January 7, 2014

MEMORANDUM FOR BOARD MEMBERS KENNEDY, BILYEU, McCRAY,  
JONES AND JASIEN

FROM: GREGORY T. LONG  
EXECUTIVE DIRECTOR

SUBJECT: December 2013 Performance Review - G, F, C, S, I, and L Funds

**INTRODUCTION**

This report reviews key aspects of the investment performance of the G, F, C, S, I, and L Funds through December 2013, investment manager performance and tracking error, trading costs, TSP fund performance, and L Fund participation.

**TRACKING ERROR - BlackRock Funds (BTC)**

***December Tracking Error***

<b><u>Fund</u></b>	<b><u>% BTC Fund Performance</u></b>	<b><u>% Index Performance</u></b>	<b><u>Tracking Error</u></b>
Fixed Income	-0.56	-0.57	0.01
Large Cap	2.54	2.53	0.01
Small Mid Cap	<b>2.93</b>	<b>3.01</b>	<b>-0.08</b>
International	1.51	1.50	0.01

***2013 Tracking Error***

<b><u>Fund</u></b>	<b><u>% BTC Fund Performance</u></b>	<b><u>% Index Performance</u></b>	<b><u>Tracking Error</u></b>
Fixed Income	-1.68	-2.02	<b>0.34</b>
Large Cap	32.49	32.39	0.10
Small Mid Cap	<b>38.27</b>	<b>38.05</b>	<b>0.22</b>
International	<b>22.11</b>	<b>22.78</b>	<b>-0.67</b>

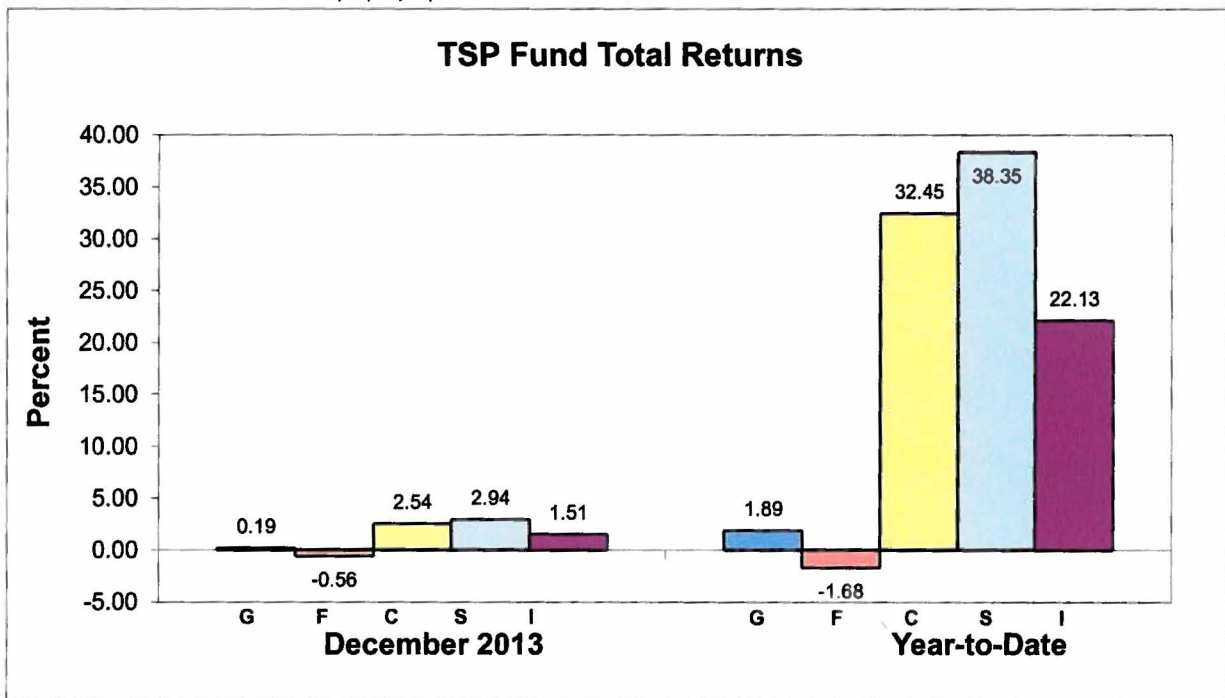
The Fixed Income Index Fund has outperformed by 34 basis points year to date, primarily due to a change in the pricing source for mortgage-backed securities that was implemented by BlackRock in January and securities lending income. The BlackRock Extended Equity Market Fund underperformed by 8 basis points during December primarily due to the optimization process. The BlackRock EAFE Equity Index Fund E has underperformed by 67 basis points year to date, primarily as a result of the tax effect and fair valuation on December 28, 2012.

**Trading Costs**

	<u>Dollar Amount Traded</u>	<u>Trading Costs</u>	
		<u>\$</u>	<u>Basis Points</u>
<u>F Fund</u>			
December	434,441,202	(12,158)	(0.3)
Year-to-Date	9,345,507,995	1,478,641	1.6
<u>C Fund</u>			
December	931,177,439	(38,577)	(0.4)
Year-to-Date	19,420,516,400	1,350,267	0.7
<u>S Fund</u>			
December	935,045,900	86,350	0.9
Year-to-Date	18,302,396,796	(198,837)	(0.1)
<u>I Fund</u>			
December	738,616,041	880,619	11.9
Year-to-Date	11,544,433,498	(78,779)	(0.1)

### **Performance of TSP Funds**

The chart below shows the G, F, C, S, and I Fund net rates of return.



The table below compares the net rates of return for the F, C, S, and I Funds to the returns of the corresponding BlackRock funds.

#### **December Total Return % Fund**

	<u>TSP</u>	<u>BTC</u>	<u>Difference</u>	<u>Index</u>
Fixed Income	-0.56	-0.56	0.00	-0.57
Large Cap	2.54	2.54	0.00	2.53
Small Cap	2.94	2.93	0.01	3.01
International	1.51	1.51	0.00	1.50

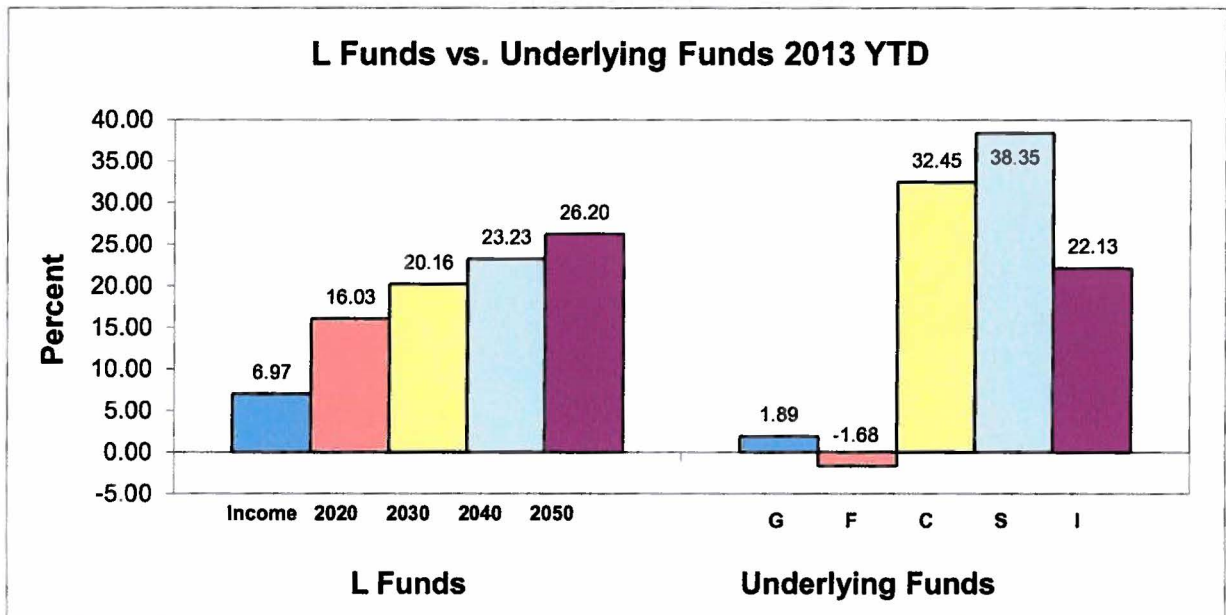
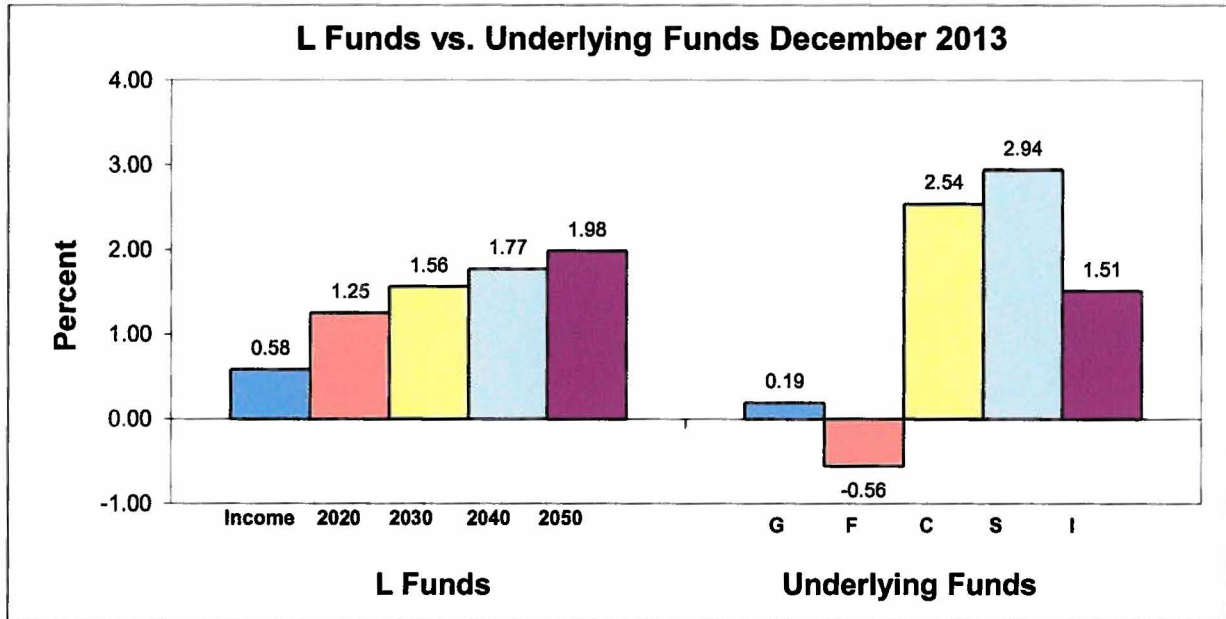
#### **2013 Total Return % Fund**

	<u>TSP</u>	<u>BTC</u>	<u>Difference</u>	<u>Index</u>
Fixed Income	-1.68	-1.68	0.00	-2.02
Large Cap	32.45	32.49	-0.04	32.39
Small Cap	38.35	38.27	0.08	38.05
International	22.13	22.11	0.02	22.78

The TSP Funds closely tracked the BTC Funds for the month and year-to-date.

## L Funds

The net rates of return for the L Funds are shown below along with comparable returns for the G, F, C, S, and I Funds.



## **THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**

Attachment 1 provides a summary of TSP investment activity and participation rates.

## **PROXY VOTING**

An audit of BTC's proxy voting conducted by ISS found no exceptions to BTC's established guidelines during the third quarter of 2013. A copy of the audit report is provided as Attachment 2. The ISS audit report for the fourth quarter of 2013 is not yet available.

## **CLASS ACTION SETTLEMENTS**

A total of 15 claims were opened in the S Fund during the third quarter. Fifty-nine claims remain open with 61% of the class actions associated with the S Fund. The remaining open claims are associated with the I Fund (36%) and C Fund (2%). Through the third quarter, 65 claims have been settled with the majority emanating from the S Fund. The TSP has received approximately \$2.46M year to date. This estimate is based on the underlying percentage ownership of the S and I Funds.

	<b><u>Claims Opened during Quarter</u></b>	<b><u>Open Claims Outstanding</u></b>	<b><u>No. of Claims Settled (YTD)</u></b>	<b><u>Estimate of Settled Claims in 2013 (USD)</u></b>
F Fund	-	-	-	-
C Fund	1	2	-	-
S Fund	20	59	63	\$2,430,884
I Fund	<u>22</u>	<u>35</u>	<u>2</u>	<u>\$28,440</u>
<b>Total</b>	<b>43</b>	<b>96</b>	<b>65</b>	<b>\$2,459,323</b>

## **RECOMMENDATION**

The G Fund investments produce long-term yields while incurring no market risk. **I recommend reaffirmation of the current G Fund policy of investing solely in short-term maturities.**

The F, C, S, and I Funds have tracked their respective indices and have incurred low trading costs. **I recommend reaffirmation of the current F, C, S, and I Fund investment policies.**

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 -- et seq.) provides 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, Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund and the International Stock Index Investment Fund; and

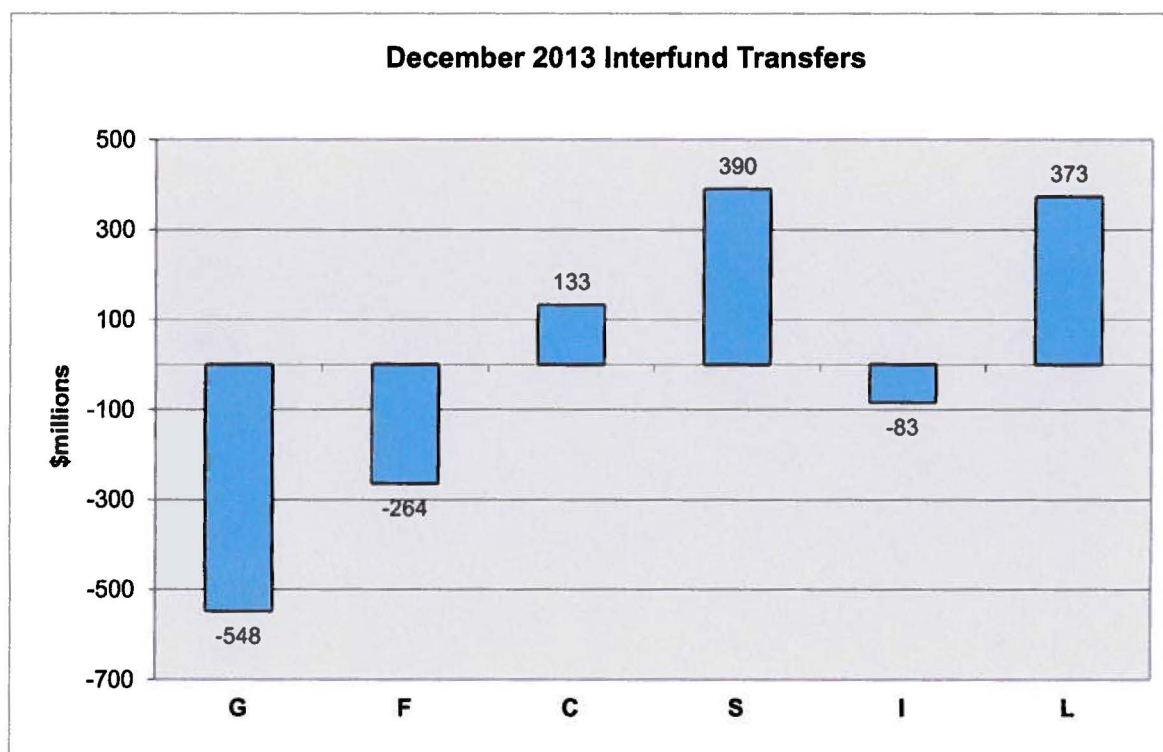
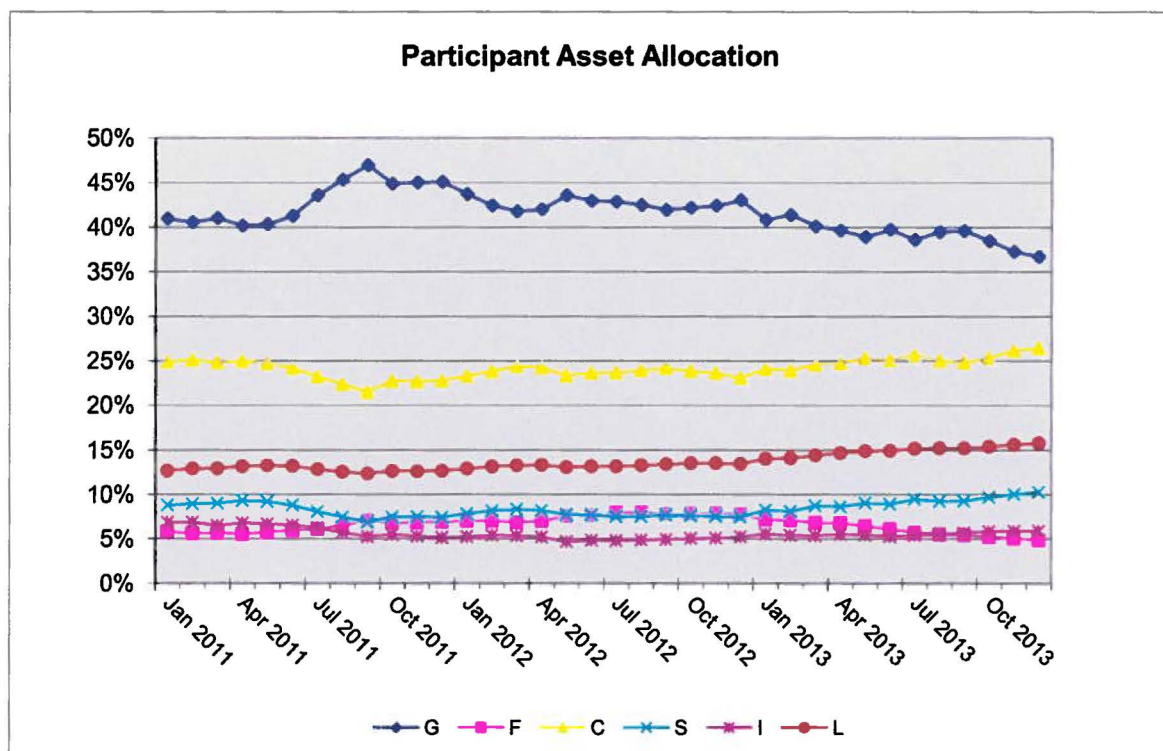
WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

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

Attachments

# THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY December 2013

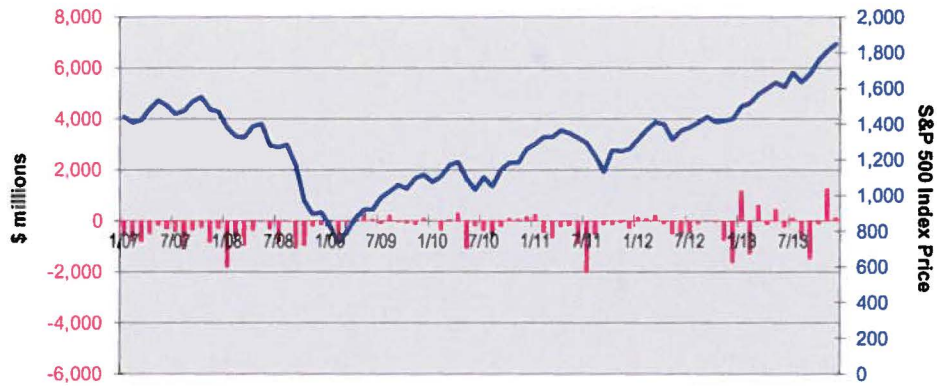
Attachment 1



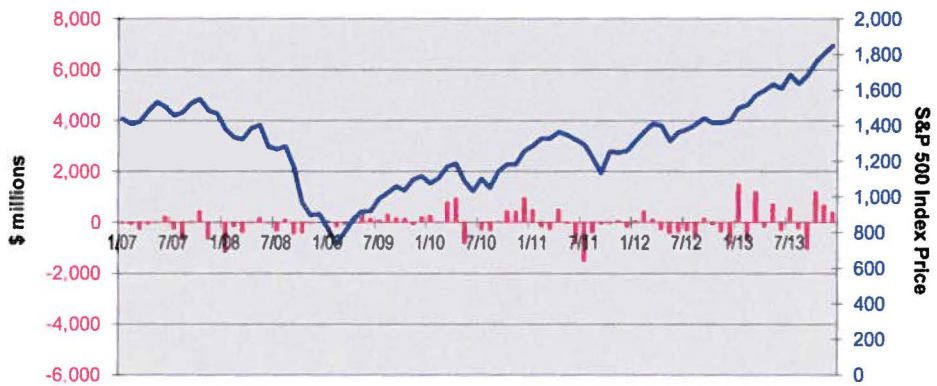


**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**  
**December 2013**

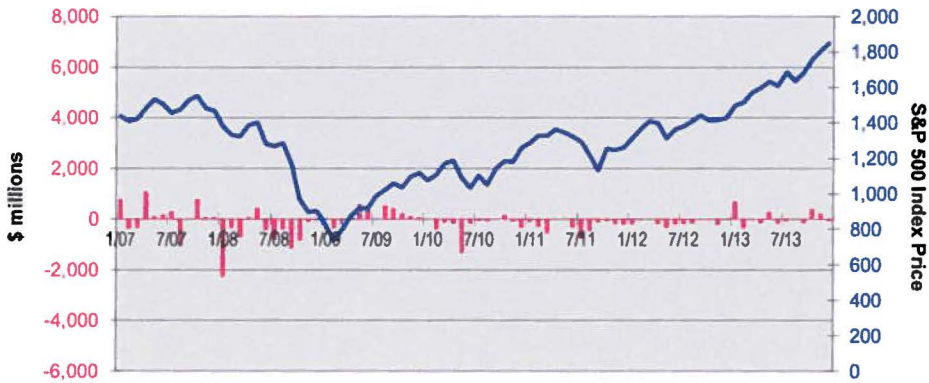
**Monthly Interfund Transfers  
C Fund**



**Monthly Interfund Transfers  
S Fund**

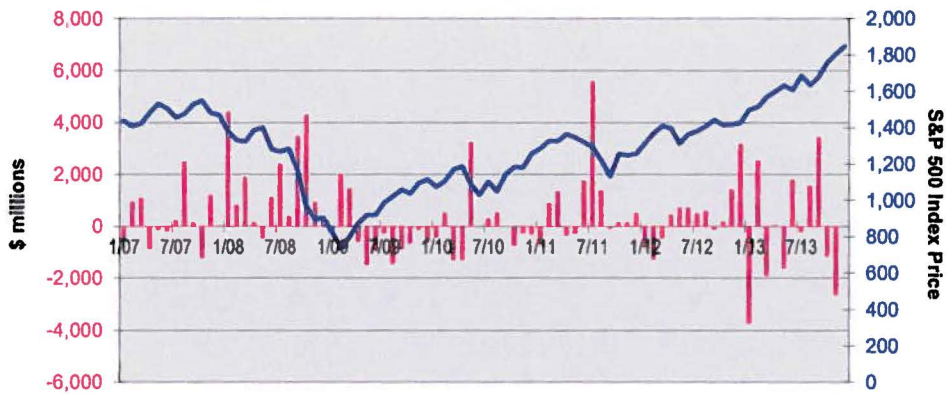


**Monthly Interfund Transfers  
I Fund**

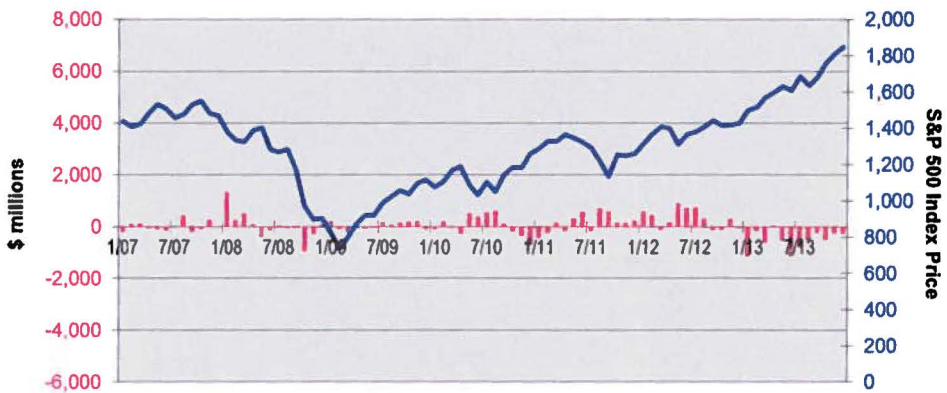


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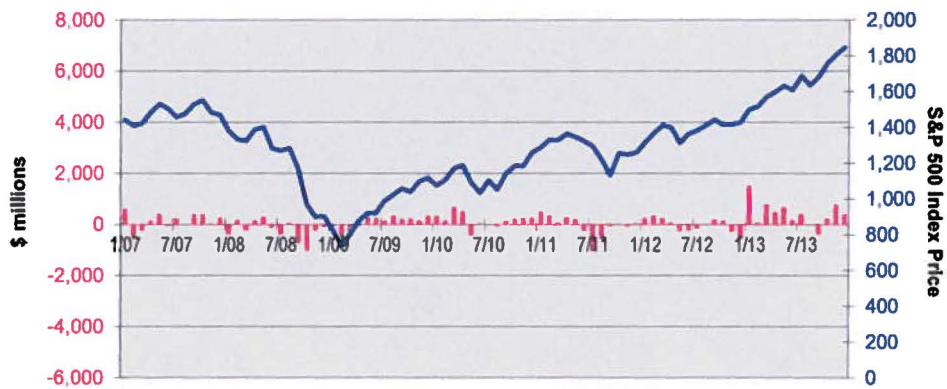
**Monthly Interfund Transfers  
G Fund**



**Monthly Interfund Transfers  
F Fund**



**Monthly Interfund Transfers  
L Funds**





## THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY December 2013

