



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 17, 2006

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 17, 2006, at 9:03 a.m., Eastern Standard 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 (by telephone); Terrence A. Duffy of Illinois, member (by telephone); Gary A. Amelio, Executive Director; Thomas K. Emswiler, Acting Secretary and Associate General Counsel; Mark Hagerty, Chief Information Officer; Pamela-Jeanne Moran, Director, Benefits Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; and Thomas J. Trabucco, Director, External Affairs. Also in attendance were a representative of the Department of Labor and representatives of Ennis Knupp.

1. Approval of the minutes of the December 19, 2005, Board member meeting.

Mr. Saul entertained a motion for approval of the minutes of the open portion of the December 19, 2005, Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the open portion of the Board member meeting held on December 19, 2005, be approved.

2. Thrift Savings Plan (TSP) activity report by the Executive Director.

a. Investment report and participation review.

Ms. Ray provided the Board members with a report on the performance of the G, F, C, S, and I Funds during the fourth quarter of 2005, as discussed in the Executive Director's memorandum dated January 6, 2005. She pointed out that every L

Fund outperformed the G, C, and S Funds in December and the G, F, C, and S Funds since inception and hoped that this would encourage more participants to use the L Funds.

The Agency's consultants, Ennis Knupp, presented its report on the appropriate indexes to use for the C, S, F, and I Funds. They recommended that the Agency maintain the S&P 500 Index for the C Fund and the Dow Jones Wilshire 4500 Index for the S Fund, noting that these indexes cover the entire U.S. stock market and that the cost of changing indexes would be significant with little noteworthy benefits. The consultants recommended that the Agency maintain the Lehman Brothers Aggregate Bond Index for the F Fund and that the Agency maintain the MCSI EAFE Index for the I Fund. Mr. Fink remarked that he preferred the MSCI World ex-US Index because it included Canada. The consultants responded that because the MSCI World ex-US Index is not daily valued it would present problems with liquidity for the TSP. Mr. Amelio remarked that although the MSCI World ex-US Index is more diversified than the MCSI EAFE Index, transaction costs would increase significantly because the TSP would constitute an overwhelming percentage of the MSCI World ex-US Index as would the problems associated with it not being daily valued. Mr. Hagerty noted that using a non-daily valued fund would likely require significant changes to the record keeping system. Mr. Saul remarked that world investments are changing and that the Agency will need to reexamine its I Fund index as GNP shifts to China, India, and other emerging markets. Mr. Amelio agreed to track this for the Board.

Mr. Saul remarked that it is important for the public to know that this is only the first of the reviews Ennis Knupp will conduct for the Agency. Next will come its report on whether accounts should be commingled or separate, then it will review the request for proposal criteria for the fund manager solicitations, then it will conduct a due diligence review of the entities selected to be fund managers, and last it will report on any new investment funds that might be appropriate to offer participants.

The members then 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.

b. Quarterly report on vendor financial status.

Mr. Petrick provided the Board members with the quarterly report on vendor financial status as discussed in a memorandum to the Executive Director dated January 6, 2006. The report continues to examine the Dun & Bradstreet credit score (with the exception of Barclays because the score is unavailable) but has lowered it in importance with regard to assessing a vendor's overall viability. The report examined other significant events that could affect a vendor and added a section on risk mitigation. Mr. Petrick reported little concern associated with SI International, Spherix, or Barclays PLC but a moderate degree of concern regarding Switch and Data because it is a venture capital firm and there is always a risk that investors might back out. Mr. Whiting and Mr. Sanchez remarked that the best part of the report was its risk mitigation strategy in the event of the financial failure of a vendor. That is, the Agency has a plan to run the vendor operated function in the event of a vendor's financial failure.

c. Meeting with House Committee.

Mr. Amelio reported that he, Ms. Ray, and Mr. Trabucco met with the staff of the Committee on Government Reform to discuss Real Estate Investment Trusts (REITs) and gave them a full review of what the Agency had accomplished and where it was headed. The staff also expressed interest in the Ennis Knupp report and Mr. Amelio promised to provide them with a copy after today's Board meeting.

d. Annuity provider.

After a competitive process, the Agency selected MetLife to continue as its annuity provider.

e. Communications program.

Mr. Amelio praised the continued excellent work by Ms. Moran and her staff in improving Agency communications material. He reported that the Society for Technical Communications had recognized the Agency with a Distinguished Award for the Agency's Fund Information Sheets and an Excellent Award for its Court Order pamphlet. Ms. Moran reported that the lifecycle funds DVD for the Uniformed Services was completed and was currently being mailed.

f. Legislation.

Mr. Trabucco reported that Congress had approved a pilot program for the Army that would require the Army to match the TSP contributions of new recruits in the coming year. At the conclusion of the pilot program, the Secretary of the Army will make a report to Congress on the program. Mr. Trabucco noted that Agency personnel had already contacted the Department of Defense representative to the Employee Thrift Advisory Committee and offered to assist them with implementation. Mr. Saul encouraged the staff to continue to support the Army's efforts.

g. Plan loans.

Mr. Amelio reported that the number of outstanding plan loans had been reduced from approximately 1,000,000 to 790,000. He would like to see this number reduced further because it is in the interest of participants to keep their money in the plan and reducing the number of outstanding TSP loans would help the Agency with plan administration.

h. Other Requests for Proposals (RFPs).

Mr. Amelio reported that he hopes to have the review of the printing/mailing proposals completed this month and noted that the RFP for mail/data entry services will be released on January 20<sup>th</sup>.

Mr. Fink stated that the Board members rarely hear about complaints and asked if the Agency received any. Ms. Moran responded that, even with the disruptions caused by the hurricane, complaints were few and far between and that the Agency has been able to respond to them right away. Mr. Trabucco remarked that the Agency is receiving approximately 15-20 Congressional inquiries on behalf of constituents each month and that this is about one quarter of the number that the Agency previously received. Mr. Amelio remarked that the complaints he and the Board members receive are usually asking for exceptions to policy rather than complaining about the quality of service. Mr. Fink stated that Board members should receive a report summarizing complaints and Mr. Trabucco promised to include the year-end report on complaints with the next Board package.

i. DOL audit.

Mr. Petrick commented on the Department of Labor audit of the Agency loan program. He remarked that the Agency will comply with the recommendation to improve efforts to automate the process to identify loans with no payment activity by the end of March. Mr. Fink remarked that the report also shows the fees the Agency has collected since it began charging participants \$50.00 to take out a TSP loan. Mr. Saul commented on the fairness of making participants who take loans responsible for the costs associated with the loan rather than having those participants who didn't take TSP loans subsidize the activity.

j. Year end performance.

Mr. Saul asked for a year-end performance report. The report showed that all funds had positive earnings and that the S and I Funds had performed particularly well.

3. Closed session.

Prior to the meeting, on a vote taken by the Secretary, the Board members voted unanimously to close the meeting for a discussion of internal personnel matters. Present during

the discussion were the Board members, Mr. Amelio, and Mr. Emswiler.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection, and Chairman Saul adjourned the meeting at 11:25 a.m.:

MOTION: That this meeting be adjourned.

A handwritten signature in black ink, appearing to read "Thomas K. Emswiler", written over a horizontal line.

Thomas K. Emswiler  
Acting Secretary

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