

**Statement of Barclays Global Investors, N.A.**

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and the District of Columbia  
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Thank you for inviting me to testify today about Barclays Global Investors (“BGI”) and its role as the external asset manager for the Federal Thrift Savings Plan (“TSP”). We are honored to have served as an investment manager for the TSP since 1988, a relationship we have retained in regular, highly competitive bidding processes.

I will begin by discussing our investment philosophy and our structure, both of which are focused on delivering highly reliable, low cost investment results to institutional investors like the TSP. By “institutional”, I refer to defined benefit and defined contribution pension plans sponsored by corporations or public agencies, and to endowments, foundations and other similar pools of capital. I will then say a few words about the services we provide to the TSP, and elaborate on how we keep the costs associated with trading and investing as low as possible. I will conclude by discussing BGI’s “Emerging Broker Program”, which has been in place since the early 1990s.

Barclays Global Investors, N.A. was founded in 1971 as part of Wells Fargo Bank in San Francisco, California. Today, we are owned by Barclays PLC, one of the world’s leading financial services providers. We are headquartered in San Francisco with approximately 1800 employees in California and elsewhere in the US, and 1700 more employees worldwide serving the needs of our global clients. BGI created the first index strategy in 1971, just one of the many financial innovations we have pioneered.

Since our founding, BGI has remained true to a single global investment philosophy which we call *Total Performance Management*. BGI manages *performance* through the core disciplines of *risk, return* and *cost* management. The success of our indexing methodology results from our focus on delivering superior investment returns over time while minimizing trading and other implementation costs and rigorously controlling investment and operational risks. This approach helps us avoid investment ‘fads’ or a dependence on ‘star managers or ‘stock pickers’. It has been the foundation for the way we have managed money for over 30 years, and we believe it has served our clients very well.

As I noted earlier, since 1988 one of those clients has been the TSP. BGI manages four of the investment options available for participants—the TSP C fund (based on large-capitalization US equities), the S Fund (based on mid- and small- capitalization US equities), the F Fund (based on the Lehman Aggregate Long-term Bond index) and the I Fund (based on the MSCI Europe Australia Far East (EAFE) index of non-US equities). There is also the G Fund, which is managed by the US Treasury and invests in US Treasury securities. In August 2005, the TSP added a series of lifecycle or “target horizon” options that use the existing five options as the asset class ‘building blocks’ with allocations in each lifecycle fund across these options being determined by a separate external vendor selected by the TSP.

TSP participant assets are invested in bank collective funds (legally trusts), which are subject to Federal bank trust law enforced by the Office of the Comptroller of the Currency, the US regulator for national banks. TSP assets are commingled with other institutional investors in BGI’s collective funds, many of which are subject to the Employee Retirement Income Security Act (ERISA). As such, BGI manages the TSP assets in compliance with both ERISA and the Federal Employees Retirement Security Act (“FERSA”), the enabling statute for the TSP.

BGI provides investment management services to the TSP and no other services. This is also true of BGI's relationship with most of our other clients. In general, we provide only investment management services, which we consider our core expertise. In fact, the key to our success in asset management has been our ability to minimize implementation and trading costs. High costs and expenses of investing detract from performance and investment returns; lower costs increase the investment pool and put more money long-term into the pockets of investors. Let me say a few words about how we do this.

Each of our index funds is structured to match the performance of a specific index. These indexes (such as the S&P 500 or the MSCI EAFE) are designed by third-party index providers. However, these indexes are really 'paper portfolios' and do not include any of the trading costs that real-world investors experience. Thus to successfully achieve the performance target—that is, to track the index as closely as possible—BGI strives to minimize the 'real world' costs through a variety of highly efficient trading approaches.

Through the size and diversity of our client base we are able to match or offset a significant percentage of our clients' buy and sell orders internally, thereby reducing or eliminating market transaction costs. The internal matching of buy and sell orders is commonly referred to as 'crossing', and is conducted and actively monitored by BGI pursuant to the terms and conditions of an exemption issued by the Department of Labor. All these transaction savings, which we estimate are in the hundreds of millions of dollars each year, are passed directly to our clients.

When we do trade in the external markets, we utilize carefully developed and managed trading strategies and we access all possible sources of liquidity, including electronic marketplaces. Our trading activities are supported by a dedicated trading research team, whose sole job is to develop new trading techniques and strategies to minimize trading costs. Our prime objective is to achieve the highest degree of control over

investment outcomes at the lowest possible cost. BGI has developed state-of-the-art systems which use automation to improve trading efficiencies and lower transaction costs.

We execute our trades through broker-dealers who have been pre-screened for credit-worthiness, as we believe all trading relationships incorporate some level of credit exposure to the executing broker. We also rigorously monitor the prices at which our trades are executed relative to a number of market-related benchmarks to ensure we are receiving best execution. We also use our scale to negotiate low per share commission rates. BGI does not and has never used “soft dollars” in its trading activities on behalf of its funds. In addition, BGI does not accept direction from its investment management clients as to its trading activities, including its selection of the brokers with which it trades.

BGI does not contract out any portion of its investment management activities for the TSP account, and generally does not use so-called “sub-advisors” in the investment strategies it offers its clients. Given the institutional nature of our client base, these clients will contract directly for investment strategies that BGI does not offer, thus avoiding the need to compensate both the advisor and sub-advisor for managing the assets in the chosen strategy.

Over the course of a long-term investment, lower management fees and expenses (including trading commissions) can translate into considerable savings for any investor. Indeed, index investing remains the most cost-efficient and diversified way to gain exposure for most investors’ portfolios. Congress recognized this itself in FERSA, which provides that the public market options be invested in portfolios designed to replicate the performance of an index that is ‘commonly recognized’ as reflecting the performance of each asset class (i.e., the S&P 500 Index for large capitalizations US equities).

Now, I would like to discuss BGI's emerging broker program. BGI is committed to promoting and utilizing new ideas in investment services in order that we may provide our clients with the best and widest range of execution and service alternatives that are consistent with our fiduciary responsibilities. In keeping with our fiduciary responsibilities, BGI has an explicit policy to select the most credit-worthy counterparties that provide the best trade executions at the lowest possible cost. At the same time, BGI recognizes the diversity and complexity of today's business community, and that recent trends in financial services have resulted in an increasing number of firms offering brokerage services that do not fit the traditional format of a full-service investment firm. These emerging brokers include minority business enterprises, women business enterprises, disabled veteran enterprises and other small firms offering alternatives to established and well-capitalized broker/dealers.

Within the context of our overall trading requirements, BGI believes it is important to allow for the positive impact of innovative ideas and differentiated service from emerging brokers. The diversity of thinking and potential for creative problem solving is often associated with the entrepreneurial culture of emerging brokers. This is an advantage that we have long recognized and wish to continue to provide to our clients. As a result, we developed a separate program and approval requirements for emerging brokers.

Firms are selected on the basis of several criteria including capital, business and regulatory track record, operational capabilities, trading talent, competitive costs, and reputation. For firms that pass the initial screening, BGI conducts due diligence, which often includes an on-site visit by BGI personnel. Once selected, our trading team works closely with the dealers to establish real-time connectivity, review order handling guidelines and establish the best execution framework required to do business with BGI. We have found, in our experience, that emerging brokers are most successful with BGI when they focus on working to match offsetting client order flow

or in handling agency orders in small or mid-cap securities that have irregular trading patterns.

The nature of the investment strategies managed by BGI means that the majority of our trading requirements will continue to be met by those firms that can provide the necessary automation and high volume, low cost execution that is part of the advantage we offer our clients. However, also due to BGI's scale, we often are within the top ten clients of an emerging broker in the program. We don't believe it's in either the broker's interest, or in the interest of BGI and its clients to be the dominant customer of any brokerage firm, as it poses dependency risks to both sides.

Because of our commitment to innovation which we firmly believe originates in the diversity of ideas, we continue to refine our counterparty approval policies to ensure that they recognize the positive potential contribution of emerging brokers.

I thank you for the opportunity to speak with you today and I look forward to answering any questions you might have.