



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

November 24, 2008

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on November 24, 2008, at 9:05 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; by telephone, Alejandro M. Sanchez of Florida, member; by telephone, Terrence A. Duffy, of Illinois, 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; Thomas J. Trabucco, Director, External Affairs; and Renée Wilder, Director, Research and Strategic Planning.

1. Approval of the minutes of the October 20, 2008 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the October 20, 2008 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting held on October 20, 2008, be approved.

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

Mr. Long stated that October was a very difficult month for the capital markets. The market experienced volatility and challenges in October and into November as well. Despite an increase in participant service activity, including a significant amount of dollars moving into the G Fund, the Agency has had no service challenges and continues as best it can to help participants weather the storm.

a. Monthly Participant Activity Report.

Mr. Long then discussed the Participant Activity Report and asked Ms. Moran to share the new Plan Summary. Ms. Moran noted that the new Summary has more graphics and that she is very pleased with how it turned out. She explained that it had been a while since the Summary had been updated, and, that her team decided it was time to revise the Summary as many things have changed.

The Plan Summary is available on the Web site, and agencies and services can order the Summary from the Agency. The Summary is available as a pdf as well as in print, but the Agency prefers that people get the Summary in pdf format as it saves on warehousing and printing costs.

Ms. Moran then reported that during the month of November the average call volume declined by approximately 400 calls per day. Also, the number of investment-related calls in October was approximately 1,000 per day which represented 10 percent of the Agency's call volume. Now the volume is back to a normal range of approximately 500 investment-related calls per day. The number of calls related to withdrawals and loans continues to be high, but the Agency is seeing a decline in the number of calls related to interfund transfers. Mr. Long noted that last month's calls were related to loans and withdrawals as well as investments and IFTs. This month's statistics show that, even though volatility continues, the force driving interfund transfers is weakening.

Ms. Wilder then reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). She noted that the market has had a negative impact on the TSP's overall balance. In particular, the Fund's assets are at \$202 billion which is down a little over seven percent from September's close and down 11 percent from October. There has been a fair amount of movement into the G Fund which is probably not unexpected.

On a positive note, the TSP participation rate has been holding steady at eighty-five percent, and the total number of participants is just under four million. Ms. Wilder noted that the active duty participation rate is holding at 36.2 percent and the rate for all uniformed service participants increased slightly from 27.1 to 27.5 percent.

Withdrawals and loans have been trending slightly up for the year, and October experienced a bit of a spike in both of these areas. Ms. Wilder mentioned that she recently at-

tended a conference relating to the 401(k) market and that there is a general feeling that the amount of loan and withdrawal activity in corporate 401(k) plans has increased sharply. Ms. Wilder noted that, relative to the overall marketplace, the TSP is doing well and that the Plan has not seen wholesale withdrawals. Mr. Long agreed and noted that the term of art is leakage, and the TSP has experienced less than others.

Mr. Saul noted that the number of loans has remained relatively flat. Mr. Long agreed and noted that there were a few more hardship withdrawals but the TSP is doing much better. Mr. Long attributes this to the nature of government work and the confidence that government employees, relative to some private sector employees, have in the future, and, in particular, in their employment.

Mr. Fink inquired about forfeitures. Ms. Moran noted that the FERCCA forfeiture activity continues to be heavy and that the Agency sends out a report to help agencies identify participants who may be in the wrong retirement classification. Mr. Long noted that forfeitures reduce net expenses and that they could stop at any point and this is one reason why expenses have been broken out as gross and net so that it is easier to see the impact of forfeitures on the administrative expense ratio.

Mr. Petrick noted that forfeitures were on track to be similar to the amount in the previous year. Mr. Saul commented that the gross administrative expense ratio is, therefore, about 3.5 basis points, and the net to participants is 1.5 basis points which is very cheap compared to other 401(k) plans. This low expense ratio is particularly important to participants now because they are not paying high fees on top of experiencing losses.

b. Legislative Report.

Mr. Trabucco reported that Congress will convene in January. In the Senate, Senator Lieberman will stay on as Chairman of the Committee on Homeland Security and Governmental Affairs, with Senator Collins as the ranking Republican. There will be a change in the House as Henry Waxman was successful in seeking the Chairmanship of Energy and Commerce. What will happen next in the Agency's committee, the Committee on Oversight and Government Reform is still unclear. Edolphus Towns is next in seniority and there may be a battle for that spot with either Elijah Cummings or Carolyn Maloney.

c. Investment Performance Review.

Ms. Ray reviewed the November 14, 2008 memorandum (attached), entitled "October 2008 Performance Review - G, F, C, S, I, and L Funds." The tracking error of the BGI Fund performance versus the index for the small-mid cap fund for the month and year-to-date is attributable to sampling techniques in the fund. The International Fund had a tracking error of 40 basis points in October due to a fair valuation adjustment. Year-to-date this tracking error is 93 basis points.

Ms. Ray discussed the trading costs for the month of October and in particular in the I Fund. There was a trading credit of \$8 million (57 basis points) in the month of October in the I Fund. This is due to the volatility in the market and the fact that after the U.S. markets close, there is a lot of overnight activity. Year-to-date the expenses for the I fund were actually a negative cost (a positive to the Fund) of \$2.6 million.

The amount traded in the F Fund was \$1.5 billion and this was primarily money going to the G Fund. During the month of October, \$2.3 billion was traded in the C Fund which was a big spike in C Fund activity. Ms. Ray noted that, as the C Fund is the Plan's largest equity fund, you expect to see larger activity than in the other funds. Last year at this time, \$4 billion was traded in the S Fund, and this month only \$746 million was traded. Ms. Ray stated that we're seeing more people reallocating their assets rather than trading them in and out of the market. The G Fund rate for November is 3.75 percent which is good compared to other yields.

In October, the TSP Funds were down significantly. For example, the S and I Funds saw declines of 20 to 21 percent, and the C Fund's returns were down almost 17 percent. Year-to-date, the I Fund is down 43 percent, the S Fund is down 34 percent, and the C Fund is down 33 percent. To date, the numbers for November look as bad as October. Mr. Long stated that there is no question that the numbers are not good, and the Agency acknowledges that its participants are feeling the pain of the negative performance. However, the Agency continues to get out the message to potentially nervous investors about the importance of matching their investment horizon with their investment strategy.

Ms. Ray discussed the L Funds and noted, that, as expected, the most aggressive L Fund, the L 2040, was down 15 percent, while the L 2010 Fund was down five percent. Year-to-date, the L 2010 Fund is down 10.5 percent and, compared to other 2010 funds, the TSP's 2010 Fund is performing well. This is because the Agency selected a conservative glide path for its participants who will need their money in two, three, four years, while other providers had more aggressive allocations. For example, companies like Vanguard, T. Rowe Price and Fidelity had 2010 funds that were down 22, 23, and 24 percent in 2008 through September. The Agency's 2010 fund has a higher debt to equity ratio than these other funds. Mr. Saul noted that he was very pleased with the design of the Fund and its response to the marketplace. Ms. Ray mentioned that the Agency's other L Funds' allocations are just a little more conservative than other providers' funds.

Ms. Ray discussed that participants are changing their contribution allocations. In October, 42 percent of monthly contributions were going into the G Fund. As a point of comparison, in July 2007, 31 percent of contributions were going into the G Fund. During the month of October, there were 268,000 interfund transfers - the highest number of IFTs was in August 2007 with 271,447. During the month of October a billion dollars left the L Funds, \$856 million left the I Fund and a large amount, as mentioned, also left the F Fund. This money went into the G Fund which took in \$4.3 billion in October.

Mr. Saul noted that it appeared that younger participants were allocating their money more aggressively and asked Mr. Long to do more analysis into this point.

3. Securities Lending Report

Mr. Long reviewed the November 7, 2008 memorandum (attached), entitled "Securities Lending Activities." Securities lending is a process whereby asset owners agree to lend securities to broker/dealers in exchange for collateral and a fee. The F, C, S, and I Funds all invest in collective funds managed by Barclays Global Investors (BGI) and these funds all engage in securities lending. There is a significant economic benefit to TSP participants from securities lending. In 2007, securities lending generated \$94 million for the Plan. In 2008, this activity will generate a benefit of over \$100 million. Though this is considered a low risk method of enhancing income and economic benefit, Mr. Long noted that securities lending is not risk free. This is why during its request for proposal process

the Agency ensured it understood the risk controls for all bidders. During the recent market turmoil, the Agency has been in regular contact with Ennis Knupp and BGI and even spoken to BGI's CEO. The Agency is comfortable that BGI has the appropriate processes set-up to manage its securities lending program.

Mr. Fink noted that he has read that some public plans have pulled out of securities lending all together. Mr. Whiting commented that he believed that was because some plans did not want to support short selling. Mr. Fink then asked whether the \$90 million generated from securities lending was significant. Ms. Ray noted that it is a few basis points, and Mr. Petrick commented that is it the size of the Agency's budget. Mr. Saul also noted that a way to think about the benefit of securities lending is that it basically covers the Agency's expenses.

In response to a question from Mr. Fink, Ms. Ray commented that BGI lends the securities out overnight but the cash is invested in securities with longer maturities.

Mr. Long noted that the Agency is not trying to hide the risk associated with securities lending but, based on the controls in place and benefit to the Plan, it is prudent to continue participating in the program. Mr. Saul noted that, though the securities lending program is running well, the Agency has to continue to regularly monitor the securities lending activity.

4. 2008 Participant Survey.

Ms. Wilder discussed the memorandum dated November 14, 2008 (attached) entitled "TSP Participant Survey." The Agency's goal is to have a participant survey every two years. The 2008 survey was sent out, and, to date, the Agency has had approximately 1,600 responses. A new feature this year is that participants have the option of responding by way of the Web at a secure site hosted by Watson Wyatt. More than half of the responses have come in via the online feature, and the Agency is hoping for a high response rate.

The survey was sent out to 35,000 randomly-selected participants. The goal of the survey is to gain a greater understanding of participant behavior and to know what participants like or would like to see changed. In particular, the survey asks questions about a potential Roth 401(k) feature, the desire for tax/financial planning advice and a self-directed ac-

count feature. These questions relate to pending legislation and features potentially added in the next year or two.

Ms. Wilder noted that they are hoping to have a high-level summary of the survey results completed to go out with the annual statement and to have a full-scale evaluation of the survey results by the end of February. The Agency sent out approximately the same number of surveys in 2006 but in two separate mailings. The Agency is hoping for a minimum of 8,000 to 9,000 responses and, ideally, 10,000-12,000.

Mr. Long acknowledged that the Agency is asking questions about overall Plan satisfaction during a terrible market. There may be some respondents who are unhappy with the TSP as a whole. However, the Agency has decided to benchmark itself every two years and will continue with this plan. Ms. Wilder added that the survey has questions which seek to understand how participants are responding to the market conditions. Mr. Long noted this survey is one part of the Agency's overall long-term planning.

Mr. Saul asked Mr. Long for an update on the Agency's Web site. Ms. Long commented that the Web site update is absolutely a priority for him. Because of resource constraints and various hiring issues, the Web redesign project has been slowed down. Ms. Moran noted that her team has been making tweaks here and there, and that, with new people coming onboard, the next round of changes will be easier. A wholesale redesign will probably happen next year at some point. It is a massive job as everything on the Web site has to be rewritten and rearranged.

Mr. Saul suggested that, since the Web site is 90 percent of the Agency's communication, the Board should revisit the Web site at the next meeting or in the near future. Mr. Whiting asked whether the Agency will continue to have two Web sites, and Ms. Moran and Mr. Long stated yes as these two Web sites serve two different needs and audiences. In the next couple of meetings, Mr. Long will update the Board on the Web site so that they can see how significant the changes are and view the Agency's progress.

5. Internal Controls Update.

Mr. Long then discussed the November 14, 2008 memorandum (attached), entitled "Status of Internal Control Project." In July 2006, the Board authorized the Agency to pursue compliance with OMB Directive A-123 which is program of internal con-

trols. Since that time, the Agency has made significant progress on efforts to establish a control program which tests and documents controls on financial reporting.

Mr. Long reported that the Agency has established a team of senior people to identify key processes and the potential controls around them. The next step is to go further and identify control gaps, and Mr. Long reported that, due to personnel and software changes, the Agency has been slower on this task than he would like. In the interim, Mr. Long, Mr. Petrick and Ms. Wilder have been meeting and discussing the importance of internal controls as it relates to A-123 and also controls for security and communications.

The bottom line is that risk mitigation is, and is going to be, a critical part of the Agency's business. To support that effort, Mr. Long has identified a permanent working team which draws from each department and will report directly to Mr. Long. This group will work to identify areas of risk and any gaps that cause the Agency not to meet its mission. Further, the Agency is establishing a reporting package so that the new software that Mr. Petrick's team purchased will be consistent with the Agency's overall strategic goals. Finally, Mr. Long noted that in January, upon the completion of the participant survey, the Agency is going to sit down and formally initiate its strategic planning activities.

6. Vendor Financials Follow-Up.

Mr. Long then turned to the memorandum dated November 6, 2008 (attached), entitled "Tier 1 Capital Ratio." In the last meeting, Mr. Fink asked for an explanation of the Tier 1 capital ratio. In response, Mr. Petrick and his team put together this memorandum. Mr. Sanchez commented that the Agency should continue to monitor Barclays as it is getting help from the British government. Mr. Fink noted the Agency is monitoring Barclays and updated him this morning regarding its sale of stock to the MidEast. Barclays, in fact, is not getting help from the British government but from its investors.

7. 2009 FRTIB Meeting Calendar.

Mr. Long noted that the Board normally meets over the week of the Martin Luther King, Jr. holiday. In 2009, however, that week will also be the week of inauguration, and it will be impossible to find a hotel room in Washington, DC. So Mr. Long proposed the date of Thursday, January 15th.

For the February meeting, Mr. Long proposed meeting in Reston, Virginia which is the site of SI SERCO which is one the Agency's largest vendors. Mr. Long noted that the SI SERCO merger is not complete. Mr. Saul suggested that while the Board members are in Reston that they should see the new data processing site.

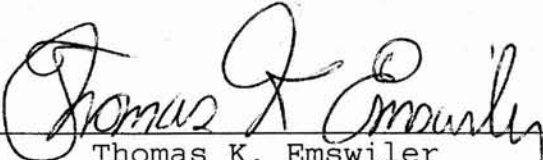
On a vote taken by the Secretary before the meeting, the members closed the meeting at 10:05 a.m. for a discussion of security.

8. Closed Session.

At 10:45, upon completion of the closed session, the members reconvened the open portion of meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 10:45 a.m.

MOTION: That this meeting be adjourned.


Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. October 2008 Performance Review - G, F, C, S, I, and L Funds
3. Securities Lending Activities
4. TSP Participant Survey
5. Status of Internal Control Project
6. Tier 1 Capital Ratio