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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 17, 2006

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 17, 2006, at 9:03 a.m., Eastern Daylight 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 Acting General Counsel; Mark Hagerty, Chief Information Officer; Gregory T. Long, Director, Product Development; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Therese A. Ray, Chief Investment Officer; and Thomas J. Trabucco, Director, External Affairs. Also in attendance were officials from the Department of Labor and Deloitte & Touche LLP.

1. Approval of the minutes of the March 20, 2006, Board member meeting.

Mr. Saul entertained a motion for approval of the minutes of the March 20, 2006, 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 20, 2006, be approved.

Mr. Saul then welcomed Gregory T. Long, Director, Product Development, as a new member of the Agency's senior staff. Mr. Saul remarked that TSP assets have doubled in size since the new Board members were appointed in 2002 and added that the plan continued to grow and change. Mr. Long said that he looked forward to helping run the best retirement program in the world.

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

a. Office of Product Development.

Mr. Amelio remarked that the Office of Product Development was a new office in the Agency. It will track changes in the industry and recommend changes/additions to the TSP. Mr. Long will spearhead the upcoming participant survey and will examine, among other things, whether to add a Roth 401(k) feature, automatic enrollment, and making the L Funds the default funds.

Mr. Saul asked when the survey would be completed and what we expected to accomplish with it. He was told that the survey should be completed by the end of 2006 and that we would talk more about it at the next Board member meeting. Mr. Sanchez added that the survey is a great idea and that the Agency should be sure to include members of the uniformed services who are overseas.

b. NFC transition report.

Mr. Amelio commented that the NFC continues to provide accounting, case processing, agency payroll processing, and some management services to the Agency. It currently has 86 employees performing work for the Agency. The NFC recently informed the Agency that it will no longer perform these services effective June 9, 2006. The staff has been working under emergency contract procedures to obtain a new service provider. The staff has made great headway. Mr. Amelio expects this to be a seamless transition, and, once the transition is complete, to be able to provide participants with better service at one-half the cost.

c. Phishing.

Mr. Amelio provided additional information on the phishing scam that he reported on last month. Three attempts were made to fraudulently withdraw money from the TSP but the Agency successfully blocked them. The Agency learned that all the participants who provided information were currently employed; none were retirees. It appears that they provided information when they were busy and preoccupied and just made a mistake in providing the information. The F.B.I. and other law enforcement agencies continue to investigate the scam.

d. Bulk Mailing.

Mr. Amelio reported that the Agency had selected R.R. Donnelley of Chicago, Illinois, to provide bulk mailing services. The company will be providing services through its

Dynamic Communication Solutions business unit at its production facility in Thurmont, Maryland.

Mr. Saul asked for a report on the transition process and whether the Agency was satisfied with the quality of the R.R. Donnelly operation. Mr. Hagerty replied that the process is going very well and that it was a well-run organization.

e. Legislation.

Mr. Trabucco provided additional information on last month's report regarding legislation that would, among other things, require participants convicted of felonies to forfeit TSP contributions attributable to their employers. The provision was removed from the House version of the bill and had never been included in the Senate version. The Agency will continue to try to have repealed the law that requires participants convicted of crimes involving espionage to forfeit TSP contributions attributable to their employers.

Mr. Whiting asked if the reason the Agency sought to repeal that provision was that, unlike a pension, TSP funds are the property of the participants. He was told that his understanding was correct and that it also raised Eighth Amendment concerns.

Mr. Trabucco reported on a proposal that would require the Agency to disinvest in firms that are involved in Iran's energy sector. The Agency is cooperating with the Administration in opposing this and has expressed its concerns in writing.

Mr. Trabucco reported that adding a Roth 401(k) feature to the TSP would require a legislative change. The Agency is reluctant to pursue such a change because the law allowing a Roth 401(k) feature expires in 2010 and because it presents both administrative and educational challenges. Some members of the Employee Thrift Advisory Council (ETAC) have expressed interest in it, however, and Greg Long will be studying the issue.

Mr. Trabucco updated the Board on the proposal that would require the Agency to add a REIT fund. The Congressional subcommittee has called for a hearing on April 26th and has called Messrs. Amelio and Trabucco to testify. The subcommittee will examine the Agency's relationship to the ETAC.

Mr. Saul reiterated that it was the position of the Board, the Executive Director, and the senior staff that they did not want to add a REIT fund at this time. He remarked that Ennis Knupp was studying the investment options offered by the TSP and would report by year's end. He directed Mr. Trabucco to make it clear to Congress that adding a REIT fund is premature, we've committed to Congress to study the TSP's investment options and will report to Congress when the study is complete. Mr. Trabucco assured Mr. Saul that the Agency has made that point to Congress and will continue to do so.

Mr. Fink remarked that Congress likely believes the Agency is being nonresponsive. Congress expects agencies to respond promptly and likely views our plan to report in a year to be inadequate. He added that we should be sensitive to Congress' position.

Mr. Saul noted that the historical practice had been for the Board (in consultation with ETAC) to propose new funds to Congress. The REIT proposal is just the reverse of this practice. Agency staff have told Congress that we are exploring other options and will report on them when our study is completed.

Mr. Trabucco added that the Agency is unique in that it receives no appropriations from Congress and must act solely in the interest of the participants and beneficiaries. Mr. Fink is correct, however, that Congress has the power to make the rules and we must be concerned about its needs. Congress has unsuccessfully tried to impose funds on the TSP previously, but none of the proposals had as much support as the REIT fund. We have always listened and cooperated to the extent consistent with our fiduciary duties.

Mr. Whiting asked whether Congress had done a comprehensive review of the funds offered by the TSP and concluded that a REIT fund would be the best one to add? He was told Congress had not and appears solely interested in a REIT fund at this time.

Mr. Whiting then asked what percent of existing TSP funds are invested in REITS. He was told that seven percent of the S Fund and 8/10ths of one percent of the C Fund were invested in REITS. If these investments were segregated into a separate fund, the TSP would be the 13th largest REIT fund in the country.

e. Investment Activity Report.

By memorandum dated April 7, 2006, Mr. Amelio provided the Board members with a report on the performance of the G, F, C, S, and I Funds during the first quarter of 2006. At Mr. Amelio's request, Ms. Ray briefed the Board members. She reported that investment fund tracking errors were minimal. The small-cap fund was slightly larger, because it does not include all stocks in the index. She noted that the trading costs for the I Fund were 14 basis points in March. This was largely due to one trade where Barclays repriced the index after the TSP sold.

Mr. Whiting asked how Barclays could reprice after the sale? He was told that it was because Barclays uses fair value pricing which reflects changes in the markets after the international markets have closed.

Ms. Ray then reviewed TSP fund returns, L Fund investment activity, and proxy voting.

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.

f. TSP Statistics.

Mr. Amelio noted that investment in the G Fund continued to decrease due to improved participant education. Approximately 35 percent of TSP funds are invested in the G Fund whereas 52 percent were invested in the G Fund when he became Executive Director in 2003. Participation by members of the uniformed services continues to increase steadily. Approximately 21 percent of active duty soldiers, 46 percent of active duty sailors, 32 percent of active duty Marines, 30 percent of active duty airmen, and 27 percent of active duty Coasties are now participating in the TSP.

Mr. Saul asked for an update on the test program to provide matching funds for certain soldiers. He was told the Army had not yet implemented the program but that its payroll office was preparing to submit test submissions to the Agency.

Mr. Saul then asked about the decrease in FERS participation from 87.2 percent to 86.1 percent. He was told that such fluctuations were normal as participants separate, retire, and new hires are brought on. It does not reflect a trend. Mr. Saul noted that inactive FERS participants lose their TSP match and that the Agency might want to target them with educational efforts. He was told that because 86 percent participation is much better than any private sector plan that this was not a high priority for the Agency. Instead, once more critical projects are completed, the Agency will address this, likely in 2007.

g. 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 April 7, 2006.

Mr. Amelio recommended that future reports include stock performance. He also noted that he was very pleased with the reports since Mr. Petrick's Office took over responsibility for them.

Mr. Petrick noted that SI International seems very strong. It is doing a lot of acquisitions, it is more leveraged, and it is about to have a new stock offering. Mr. Fink remarked that while its income is good, its balance sheet is poor (largely reflecting good will). He was told that this is one reason the Agency has adopted a risk mitigation strategy, particularly as SI conducts more business for the Agency.

Mr. Saul commented that the Agency should not give too much work to any one vendor. We don't want a new NFC, particularly since a private company might stop operations due to bankruptcy.

Mr. Petrick reported that Spherix continues to be of concern. InfoSpherix remains profitable but BioSpherix is not. However, he believes that even if Spherix entered bankruptcy that creditors would want InfoSpherix to continue operations. Mr. Sanchez asked whether any Agency employees had visited the Spherix facility and, if yes, whether we had any concerns. He was told that we conducted a surprise visit and that Spherix passed with flying colors.

Barclays remains extremely strong. Mr. Sanchez asked if Mr. Petrick had heard the rumor that Barclays might sell this portion of its banking operations. He was told that this rumor has been circulating for some time.

Switch & Data's financial position has not changed significantly since the last report. It is a growing firm with a good credit line. Mr. Saul stated that the Agency must be sure to look at Switch & Data's accountant's statements from its independent auditors.

R.R. Donnelly is ranked number one in publishing and printing and 275th in the Fortune 500 list. Mr. Fink noted that, like Spherix, if you removed goodwill from its balance sheet, it would not seem so strong.

h. New Business.

Mr. Amelio reported that the Agency's communication program is world class and recently has been recognized by the industry with several awards for its publications.

Mr. Amelio also reported that he had recognized several Agency employees for their outstanding efforts after Hurricane Katrina.

3. Review of Deloitte & Touche semiannual financial report.

In advance of the meeting, Deloitte & Touche provided the Board members with a copy of its report dated March 24, 2006, regarding its review of the Agency's 2005 financial statements. Melissa Kraus presented the results of the review; Mr. Petrick, the Agency's Chief Financial Officer, assisted in the presentation.

Mr. Saul commented that the Board serves as the Agency's audit committee and Deloitte & Touche must feel free to contact them with any concerns.

Mr. Fink remarked that accounts payable were double last year's total and asked why? He was told that this represents amounts owed to the NFC at year's end but not paid; this account was subsequently settled. Mr. Fink then asked what are asset manager rebates. He was told that these reflect rebates we receive under the contract for both custody fees and securities lending; the amount increased because the fund increased. He asked if the reason investment expenses doubled was due to the increased size of the fund and was told that was the reason. Mr. Fink also expressed concern that when employees leave the Agency that their access to the computer system be terminated. He also expressed concern over the number of inactive accounts.

Mr. Saul asked whether Deloitte would assist Mr. Petrick in preparing his presentation to the Board regarding controls. He was told that Deloitte would be happy to review Mr. Petrick's preliminary product and Mr. Petrick responded that he would be glad to have Deloitte's assistance.

Mr. Whiting asked whether Deloitte talked with the Department of Labor regarding its independent audit of the Agency. He was told that Deloitte did. However, the audits focus on different aspects of Agency operations and both Deloitte and the Department of Labor act independently.

4. Closed session.

On a vote taken by the Acting Secretary before the meeting, the members closed the meeting for a discussion of procurement and 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 12:08 p.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Secretary

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