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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

November 17, 2003

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on November 17, 2003, at 9:00 a.m., Eastern Time. The meeting was open, in part, to the public at the Board's offices at 1250 H Street, NW, 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; Gary A. Amelio, Executive Director; and Elizabeth S. Woodruff, Secretary. Also in attendance were officials from the Department of Labor, KPMG Peat Marwick, and the Board.

1. Approval of the minutes of the October 20, 2003, Board member meeting.

Mr. Saul entertained a motion for approval of the minutes of the open portion of the October 20, 2003, 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 October 20, 2003, be approved.

2. Presentation by the Department of Labor and KPMG LLP.

The Department of Labor (DOL), along with its contract auditor, KPMG LLP, appeared before the Board members to present the results of DOL's FY 2003 fiduciary compliance audit and to discuss its plans for the FY 2004 audit program. Present from the Department of Labor were Ian Dingwall, Chief Accountant, and William H. Bailey, Senior Auditor, FERSA Compliance. Present from KPMG LLP were Diane Dudley, Engagement Partner, Felipe Alonso, EDP Partner, and Heather Flanagan, Partner. A copy of the DOL briefing materials is attached to these minutes.

The Board members questioned Mr. Dingwall and Ms. Dudley about why the DOL reported 42 outstanding issues not yet resolved, while the Agency reported only 2. Ms. Dudley explained that, even though an audit recommendation may have been carried

out, the auditors were unable to close the recommendation until a follow-up audit could be conducted. Because some follow-up audits may not take place for several years, there were a number of old recommendations that had not yet been formally closed. The Board members asked that the DOL either perform a follow-up audit more quickly or determine some other method by which outstanding recommendations could be closed. Mr. Dingwall agreed to look into the matter and determine whether a methodology to accomplish the Board's purposes could be developed.

Mr. Dingwall raised the issue whether abuses recently exposed in the mutual fund industry, specifically market-timing and late trading, were possible in the TSP's funds. James Petrick, Director, Benefits and Investments, explained that Barclays had reviewed the issue and concluded in a written report to the Agency (attached) that such practices could not occur in the TSP's investments.

Mr. Amelio informed the Board members that Senator Fitzgerald, Senate Committee on Government Reform, had advised him that the committee intended to hold an oversight hearing on the TSP, including a review of the issue of market-timing and late trading, and expected to hear from him, Mr. Saul, the Department of Labor, and Barclays when the hearing was scheduled in early 2004. Mr. Saul asked whether the Agency's General Counsel had concluded that the Agency had done all it needed to do to protect against such practices and was advised that it was the opinion of the General Counsel that the Agency had done so.

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

a. Participant statements.

Mr. Amelio provided each Board member a copy of the participant statement that is currently being printed and mailed to all participants. Lawrence Stiffler, Director, Automated Systems, explained to the Board members the process for printing and mailing the statements and the status of the National Finance Center's effort to complete the mailing of the first statement produced by the new record keeping system.

b. Conversion planning.

At Mr. Amelio's request, Pamela-Jeanne Moran, Deputy Director, External Affairs, reviewed with the Board members the status of the Agency's and NFC's plan for the transfer

from MATCOM to NFC of responsibility for maintenance of the new system. Ms. Moran explained that the responsible members of the two staffs had met on November 6 and 7 and had developed a methodology for training and transferring responsibility to three key groups: developers, main NFC organizations, and TSP Operations. Each group would follow a transition plan similar to that which had already been set up for the developers.

The Board members questioned Ms. Moran regarding MATCOM's role during the transition and afterward. Mr. Fink asked that, before completing the transition, the Agency prepare a cost comparison between what the NFC will charge for maintenance of the new system and what the Agency has been paying MATCOM, so that the Agency is not paying more for the same work after the transition. Mr. Saul agreed, emphasizing that care should be taken to stabilize the new record keeping system, to complete the transition, and then to decide whether to seek competitive bids for the system maintenance work.

Mr. Whiting asked the status of the Agency's purchase of a new mainframe computer. Mr. Stiffler advised that a meeting was scheduled with IBM this week to determine which of two configurations were most advantageous. He stated that his plan was to install the new equipment in January and that he anticipated a significant increase in capacity and speed.

c. Parallel call center RFP.

Mr. Amelio advised the Board members that a Request for Proposals (RFP) seeking vendors for a parallel call center was sent to 15 vendors on November 12 and was also posted on the Federal Government's procurement web site. The RFP requests that interested vendors submit proposals by December 15. Mr. Stiffler explained that the length of the process would depend upon the number of responses received. Mr. Whiting questioned whether the NFC had made any progress on filling the vacant service representative positions.

d. Lifestyle/lifecycle funds.

Mr. Amelio explained that on October 21, a Request for Information was sent to nine consulting firms and 26 asset management firms seeking information on the possibility of adding a lifestyle or lifecycle fund to the TSP's current investment vehicles. The RFI stated that proposals should be

received by close of business on November 17th. As of the previous Friday, seven organizations had responded. The Office of Benefits and Investments will review and evaluate the responses and make a recommendation whether to proceed with an RFP.

e. Loan program.

Mr. Amelio reviewed with the Board members the changes he plans to introduce in the loan program. They will include: assessment of a $50 processing fee for each loan; imposition of a 60-day moratorium on applying for another loan after paying one in full; and a limitation on the type of loans that each participant may have outstanding to one general purpose loan and one residential loan.

f. Financial audit program.

Mr. Amelio announced that the period for submitting responses to the RFP had closed, that the responses received had been evaluated, and that an awardee would be announced at the December Board meeting.

4. Semiannual review of audit recommendations.

By memorandum dated November 5, 2003, Mr. Amelio provided the members with the status of audit recommendations. The number of outstanding recommendations for the Board as of October 31, 2003, was two. Mr. Amelio foresees no difficulty in the Board's resolution of the outstanding recommendations. Mr. Whiting urged Mr. Amelio to encourage the Department of Labor to change its policy concerning resolution of outstanding audit issues.

5. Investment policy review.

By memorandum dated October 8, 2003, Mr. Amelio provided the Board members with a report on the performance of the G, F, C, S, and I Funds during the second quarter of 2003. After Mr. Petrick briefed the Board members on this report, the following resolution was made, seconded, and adopted 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 and shall review the performance of investments made for 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.

6. Annual Ethics briefing.

Elizabeth Woodruff, the Board's Secretary and General Counsel, together with Patrick Forrest, Deputy Ethics Officer, briefed the members on the applicability of selected Federal ethics regulations to their conduct.

7. Closed session.

On a unanimous vote taken by the Secretary before the meeting, the members closed the meeting for a discussion of internal personnel matters. Present during this portion of the closed meeting were the Board members, Mr. Amelio, and Ms. Woodruff.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 1:00 p.m.