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

AMENDED MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 19, 2005

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 19, 2005, at 9:05 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 (by telephone); Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member; Terrence A. Duffy of Illinois, member; Gary A. Amelio, Executive Director; and Thomas K. Emswiler, Acting Secretary. Other agency representatives attending were David L. Black, Director, Accounting; Pamela-Jeanne Moran, Director, Benefits Services; James B. Petrick, Director, Investments; Lawrence Stiffler, Director, Automated Systems; Thomas J. Trabucco, Director, External Affairs; and Robert Battersby, Contracting Officer. Also in attendance was a representative from the Department of Labor.

1. Approval of the minutes of the December 20, 2004, Board member meeting.

Chairman Saul entertained a motion for the approval of the minutes of the open portion of the December 20, 2004, Board member meeting. Mr. Fink proposed amending the last sentence of paragraph d. of section 2. to read: "The average cost per participant for 2004 is expected to be $31, which is less than private sector plans."

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 20, 2004, be approved as amended.

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

a. Board meetings.

Board meetings will continue to be on the third Monday of each month with the exception of the February meeting. Due to the holiday, the February meeting will be on February 22. The May and June meetings are tentatively scheduled for Atlanta and Pittsburgh respectively and will include due diligence visits to Agency vendors.

b. Life cycle funds.

Mercer Investment Consulting, Inc. has recommended five life cycle funds: a current income fund, a 2010 fund, a 2020 fund, a 2030 fund, and a 2040 fund. The dates reflect the year in which the participant would expect to begin drawing down his or her account. As we approach 2010, that fund will collapse into the current income fund and we would establish a new 2050 fund.

SI International will be testing to determine whether it is efficient to rebalance life cycle accounts daily. Rebalancing daily will reduce transaction costs. If it proves inefficient, we will rebalance weekly. We will reallocate the funds quarterly.

After a competitive process, the Agency selected CitiStreet (a joint venture of CitiBank, New York and State Street Bank, Boston) to provide communications assistance for the life cycle funds. CitiStreet will develop the names for the life cycle funds as well as the communications strategy. The goal is to roll-out the life cycle funds on July 1, 2005, but a one to three month delay is possible.

The G Fund will continue to be the default fund since a legislative change is necessary to make life cycle funds the default investment option. As part of a long-term, communications plan, FRTIB staff will contact participants who remain in the G Fund six months after roll-out of the life cycle funds to remind them these new investment options are available. Mr. Amelio suggested we seek legislation making the life cycle funds the default fund after we introduce the new funds. Mr. Trabucco stated that he had had preliminary discussions with Congressional staff members regarding this and they seemed receptive to it. Mr. Fink and Mr. Sanchez recommended leaving the G Fund as the default fund. Both believed that participants should make their own investment decisions because the market might experience a downturn and participants should acknowledge

such a risk before investing in any fund other than the G Fund. Both believed it was important that we inform and educate participants about all available funds. Mr. Saul recommended that we wait until after implementation to decide which course to pursue.

c. Lock box.

The Treasury Department selected U.S. Bank in St. Louis to be our lock box vendor. We had sought a bank in the northeast that would be closer to the Agency; however, we were able to implement the lock box service six to nine months sooner by using U.S. Bank. We will begin testing in February and plan to implement the service in March. We estimate that using the lock box to process checks will save approximately $700,000 per year.

d. Legislative report.

Mr. Trabucco reported that the leadership of the Senate Government Affairs Committee and the House Government Reform Committee will remain the same in the new Congress, although the Senate Committee will change its name to the Committee on Homeland Security and Governmental Affairs. The Senate and House subcommittees are being reorganized and it is not yet clear which Senate subcommittee will exercise oversight over the FRTIB, nor has the leadership of either subcommittee been determined. Mr. Fink requested a memorandum on this once everything is determined.

Mr. Sanchez asked whether Congress has asked the Agency to provide information about the TSP in view of the President's plan to partially privatize Social Security. Mr. Trabucco reported that we have been asked and that we received similar calls for information under previous administrations. Mr. Amelio requested that the Office of General Counsel and the Office of External Affairs provide guidance to him and to the Board members regarding the permissible scope of comments they could make regarding the President's plan.

e. Open seasons.

Mr. Amelio reported that the last open season will be April 15 through June 30, 2005. As of July 1, 2005, participants will be able to change the amount of their contributions as often as they like. Ms. Moran noted that her Office is communicating this news to the participants.

f. Real estate investment trusts (REITs).

Mr. Amelio reported that an industry group continues to lobby Congress to add a REITs fund as a TSP investment option. Mr. Amelio noted that if the Agency were to consider adding any fund it would be prudent to engage an investment consultant to review all investment options. Mr. Saul noted that TSP participants already have significant amounts of REITs through the C and S Funds. Real estate stocks represent 1 percent of the C Fund and 6 percent of the S Fund. A fund with assets the size of the TSP would rank, as of December 2004, as the ninth largest holder of REITs, according to Morningstar, or fourteenth, according to Pensions and Investments.

g. Uniformed services participation rates.

Mr. Sanchez remarked that over 26,000 new uniformed service members joined the TSP from November to December 2004. In addition to this impressive growth, he pointed out that nearly 40 percent of active duty Navy personnel were now participating in the TSP.

2. Investment report and participation review.

Mr. Petrick provided the Board members with a report on the performance of the G, F, C, S, and I Funds during the fourth quarter of 2004, as discussed in the Executive Director's memorandum dated January 7, 2005. Tracking of the appropriate indices was quite close in all funds and trading costs were again small (in fact the S Fund made a profit on trading). The TSP's average expense ratio was 6 basis points. Barclays' proxy voting report, which covered the third quarter of 2004, noted no exceptions.

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 poli-

cies of the Government Securities Investment Fund, the Fixed Income Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index 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 Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Fund, and the International Stock Index Investment Fund are affirmed without change.

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 personnel and contracting matters. Present during the discussion of contracting matters were the Board members, Mr. Amelio, Ms. Moran, Mr. Petrick, Mr. Stiffler, and Mr. Emswiler. Present during the discussion of personnel matters 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 11:15 a.m.:

MOTION: That this meeting be adjourned.

Elizabeth S. Woodruff
Secretary

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