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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

September 19, 2005

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a telephonic meeting of the Board members on September 19, 2005, at 9:00 a.m., Eastern Time. The meeting was open to the public at the Board's offices at 1250 H Street, NW, Washington, DC 20005. 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; Elizabeth S. Woodruff, Secretary and General Counsel; Mark Hagerty, Chief Information Officer; Pamela-Jeanne Moran, Director, Benefits Services; James B. Petrick, Chief Financial Officer; Theresa Ray, Chief Investment Officer; and Thomas J. Trabucco, Director, External Affairs. Also in attendance was a representative of the Department of Labor.

1. Approval of the minutes of the August 15, 2005, Board member meeting.

Mr. Saul entertained a motion for approval of the minutes of the open portion of the August 15, 2005, 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 August 15, 2005, be approved as amended.

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

a. Lifecycle Funds.

Mr. Amelio announced that since August 1, 100,000 participants had moved more than $3.5 billion into the Lifecycle Funds. Mr. Amelio also discussed the publicity the funds had been receiving, including that in publications issued by ETAC members.

Mr. Saul asked when the staff might be ready to propose legislation making the Lifecycle Funds the default

option and requested that it be put on the Board's agenda to take up next spring.

b. Monthly TSP performance report.

Mr. Amelio introduced the Agency's new Chief Investment Officer, Tracey Ray, who will be providing information to the Board members regarding the TSP's performance beginning in October. James B. Petrick, whose staff prepared the August report, discussed his memorandum to the Executive Director dated September 8, 2005, regarding the investment performance of the G, F, C, S, and I Funds during August 2005. He explained that the L Funds were included for the first time but that little information can be gleaned from those numbers this early. The funds' performance tracked the markets.

Mr. Saul asked whether the funds with the longer time horizons would do substantially better than the shorter term funds if the equity market performed particularly well in a month. Mr. Petrick stated that they would, but added that an advantage of all of the L Funds is that the investment mix should lessen the volatility in each of the funds. Mr. Fink questioned the large trading costs in the I Fund; Mr. Petrick explained that this is due to larger cash flows in the I Fund. Mr. Whiting sought information on whether the number of loan requests had increased following the hurricane; Ms. Moran advised that the TSP had not yet had this experience.

3. Review of FY 2005 budget and projected expenditures, approval of FY 2006 budget, and review of FY 2007 estimate.

The Board members and Mr. Amelio discussed the expenditures for fiscal year 2005 and the proposed budget for fiscal year 2006, which Mr. Amelio forwarded to the members by memorandum dated September 9, 2005. In particular, Mr. Amelio noted that the projection for the fiscal year ending September 30, 2005, indicates that spending will be slightly less than had been approved for the year. He still expects that the expense ratio will be 5 basis points. Fiscal year 2005 expenditures were less than those in fiscal year 2004 by approximately $6.6 million. Mr. Amelio cautioned that the Agency had not yet received an invoice from the NFC for work performed during fiscal year 2005 but stated that NFC's reimbursable costs could not exceed the $30 million that the Board had approved in the budget.

Initial estimates for fiscal year 2006 suggest a further decrease of expenditures over the current fiscal year of

$5.5 million. Mr. Amelio believes that costs to participants in fiscal year 2006 may be as low as 4 basis points.

Mr. Sanchez initiated a discussion of the cost of the Agency's fiduciary insurance; Mr. Whiting questioned the policy limits and the scope of the insurance. Mr. Fink questioned why benefits were projected to rise next year by 20%, while salaries were projected to rise only 10%; he also questioned why next year's travel expenses were expected to double. Mr. Fink also questioned why there is a 300% increase expected in fiscal year 2006 for "other government services." At Mr. Fink's request, the staff will prepare and distribute to the Board members a summary of all major record keeping contracts and their values. Mr. Saul commented at length on how the current business of the Agency is considerably different from what it was three years ago when the Bush appointees were seated on the Board.

Mr. Amelio also presented and discussed budget estimates for fiscal year 2007. These are required to be submitted to the Office of Management and Budget for inclusion in the Fiscal Year 2006 Budget of the United States Government.

After the discussion, the following motion was made, seconded, and adopted by unanimous vote:

> MOTION: That the Board members approve the budget for fiscal year 2006 as proposed in the Executive Director's memorandum dated September 9, 2005, which is to be made a part of these minutes and attached hereto, and such budget, together with the fiscal year 2007 budget estimate, to be submitted to the Office of Management and Budget for inclusion in the Fiscal Year 2006 Budget of the United States Government.

4. New business.

a. Investment consultant.

Mr. Amelio advised the Board that the Agency had publicly announced the selection of Ennis Knupp as the Agency's investment consultant.

b. Major actions.

Mr. Fink introduced a resolution that would require the Board's prior review of any decision of the Executive Director that would have a monetary value equal to or greater than 10% of the Agency's budget or that a majority of the Board or the Executive Director considered to be a major action. The Board members discussed the proposal and deferred a vote on the resolution to the October meeting.

c. Effect of Hurricane Katrina on TSP Operations.

Ms. Moran detailed the work that had been affected by the evacuation and damage to the National Finance Center's Thrift Savings Plan Division and explained the procedures that the Agency had put into place to ensure that the TSP continues in operation. She explained that the Tano Building appeared to be a total loss, but that the TSPD was setting up emergency operations in Smryna, Georgia. Mr. Saul questioned whether the TSP's equipment was insured; Mr. Petrick will prepare a report for the next Board meeting. Mr. Trabucco advised the Board members that the Agency had received few complaints about the operations.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Mr. Saul adjourned the public portion of the meeting at 11:36 a.m.

MOTION: That this meeting be adjourned.

Elizabeth S. Woodruff
Secretary

10/17/05

Attachment

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