



MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 19, 2010

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 19, 2010, at 1:06 p.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 in person or by telephone were Alejandro M. Sanchez of Florida, member; Michael Kennedy of Georgia, member; Dana K. Bilyeu of Nevada, 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; and Thomas J. Trabucco, Director, External Affairs.

1. Approval of the minutes of the June 21, 2010 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the June 21, 2010 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting that was held on June 21, 2010, be approved.

2. Welcome and oath of office.

Chairman Saul welcomed newly appointed members Dana K. Bilyeu and Michael Kennedy to the Board. Both new members took the oath of office administered by Mr. Long and received commissions signed by the President and the Secretary of State.

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

a. Monthly Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). The TSP participation rate for the month ending on June 30th was 82.5%. The TSP holds approximately \$250 billion in assets.

Each year the Department of Defense provides the Agency with a new estimate of the number of uniformed services members who are eligible to participate in the TSP. The number of eligible uniformed services members in 2010 is higher than the number of eligible uniformed services members in 2009. As a result, the active uniformed services TSP participation rate expressed as a percentage of active uniformed services members who are eligible to participate in

the TSP is lower in June than it was in May. Nevertheless, the number of active uniformed services TSP participants continues to grow.

b. Legislative Report

Mr. Trabucco informed the Board that he and Mr. Long held a meeting with the Employee Thrift Advisory Council (ETAC) to discuss several legislative proposals, including: (1) contributions of unused terminal annual leave, (2) IRS tax levies against TSP accounts, (3) the Agency's status as a non-appropriated fund instrumentality (NAFI), and (4) a statute of limitations on benefit claims. Mr. Trabucco explained that the ETAC members requested a longer statute of limitations than the Agency initially proposed. On the advice of ETAC, the Agency is now asking Congress for a five year statute of limitations rather than a three year statute of limitations.

Mr. Trabucco noted that the appropriate committees in both the House and the Senate are conducting independent reviews of the Internal Revenue Service's authority to impose liens against TSP accounts. He also informed the Board that each of the legislative proposals are active issues for the 111th Congress.

c. Monthly Investment Performance Report

Ms. Ray reviewed the July 9, 2010 memorandum, entitled "June 2010 Performance Review" (attached). The F Fund, the C Fund, and the S Fund closely tracked their underlying indices for the month and the year to date. The I Fund underperformed by 76 basis points in June and 83 basis points for the year to date, primarily because of fair valuation adjustments on May 28 and June 30. Ms. Ray noted that the trading costs for the I Fund reached 18.8 basis points for the year to date, which is relatively high compared to the F Fund, C Fund, and S Fund.

Ms. Ray explained to the new Board members that the G Fund interest rate calculation is based on the weighted average yield of all outstanding Treasury notes and bonds with 4 or more years to maturity. From June to July, the 10 year Treasury note and the 30 year Treasury bond yields dropped substantially. Correspondingly, the G Fund rate fell from 2.88% to 2.63%

June total returns are (5.24%) for the C Fund, (6.9%) for the S Fund, (1.75%) for the I Fund, and 1.56% for the F Fund. These returns reflect concerns in the global markets about the European banking system and signs of slowdown in China's economic growth.

For the L 2040, L 2030, L 2020, L 2010, and L Income Funds, the June total returns are (3.47%), (2.98%), (2.34%), (0.66%), and (0.61 %), respectively. Because the L 2040 Fund has the most equity exposure, it performs the worst relative to the other L Funds in a weak market and the best relative to the other L Funds in a strong market.

Ms. Ray recommended reaffirmation of the current G Fund policy of investing solely in short-term maturities and of the current F, C, S, and I Fund investment policies. Thereafter, 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.

Ms. Ray noted that an independent audit showed no exceptions to BlackRock's proxy voting policy during the 1st quarter of 2010. An audit report for the second quarter of 2010 is not yet available.

Participants made approximately 91,000 interfund transfers in June as they moved \$15 million out of the G Fund, \$382 million into the F Fund, \$224 out of the C Fund, \$12 million into the S Fund, and \$175 million out of the I Fund. These numbers represent a significant reduction in interfund transfer activity from May.

The number of participants with L Fund balances continues to grow each month. Approximately 700,000 participants had L Fund balances in June. Of the uniformed services members who have L Fund balances, 41% of them are invested in the L 2040 Fund. Of the CSRS employees who have L Fund

balances, only 6% of them are invested in the L 2040 Fund. This result is to be expected because uniformed services members tend to be young, whereas CSRS employees represent an older segment of the federal workforce.

d. Quarterly Vendor Financial Report

Mr. Petrick reviewed the July 9, 2010 memorandum, entitled "Quarterly Financial Assessment of TSP's Primary Vendors – July 2010" (attached). Mr. Petrick explained to the new Board members that the Agency reviews the financials of its vendors to ensure their viability. Mr. Long further explained that ensuring the viability of key vendors is about risk mitigation. The Agency plans for the possibility that a vendor with a key role in the Agency's operations could develop financial difficulties that might make it unable to perform its contractual obligations.

Each quarter of the year, Mr. Petrick presents to the Board members key financial statistics of the Agency's major service providers. The Agency's major service providers include, among others, Serco (record keeping), BlackRock (investment management), Equinix (data center operations), R.R. Donnelly (printing services), and Metlife (annuity provider). Mr. Petrick further explained that an oral presentation is done by exception in the 2nd quarter and, as such, he would not discuss the financials unless the Board had questions upon reviewing the report that he provided to them.

Mr. Sanchez inquired about MetLife's A.M Best ratings. Mr. Petrick explained that MetLife currently has an "A+" rating, but its ratings were downgraded earlier this year. Mr. Petrick does not believe that MetLife's current ratings situation is any cause for concern for the Agency. Nevertheless, the Agency is taking proactive steps to ensure that its annuity provider's financial position meets the highest standards. The Agency is conducting regular discussions with MetLife about its financial situation.

Mr. Kennedy asked if the Agency had adequate access to senior management at BlackRock during BlackRock's acquisition of BGI. Chairman Saul explained that the CEO of BlackRock and other members of its senior management team are very accessible to the Board and that the Board met with them several times over the course of the merger. Ms. Bilyeu noted the importance of considering the compensation package a company provides for its senior management in order to ensure the kind of continuity that BlackRock has maintained during its acquisition of BGI.

4. Closing discussions.

Mr. Kennedy and Ms. Bilyeu thanked the Agency's staff for their hospitality and for the orientation presentations they conducted before the Board meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 1:49 p.m.

MOTION: That this meeting be adjourned.



Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. June 2010 Performance Review –G, F, C, S, I, and L Fund
3. Quarterly Financial Assessment of TSP's Primary Vendors – July 2010