FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002

MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 22, 2012

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 22, 2012, at 9:00 a.m., Eastern Time. Parts of the meeting were open to the public at the Board's offices at 77 K Street, N.E. and parts were closed to the public. In attendance were Dana K. Bilyeu of Nevada, member; Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; Gregory T. Long, Executive Director; James B. Petrick, Secretary and General Counsel; Susan C. Crowder, Acting Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Kimberly A. Weaver, Director, External Affairs; Renee C. Wilder, Director, Office of Enterprise Planning; Thomas K. Emswiler, Director, Office of Benefits; Sophie T. Dmuchowski, Acting Director, Office of Communications; Gisile Goethe, Acting Director, Resource Management; Anne Beemer, Acting Director, Enterprise Risk Management; Toni Bush-Neal, Executive Advisor to the Executive Director.

1. Approval of the minutes of the September 24, 2012 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the September 24, 2012 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 September 24, 2012 be approved.

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

Mr. Long gave opening remarks, including a brief summary of the agenda for the meeting. Mr. Long announced that the Department of Defense, and their largest payroll arm, DFAS, initiated the Roth option for Army, Navy, and Air Force active duty members on October 1.

a. Monthly Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Ms. Wilder noted that for the first time in several months participants moved money from Fixed Income markets to Equity markets. Also of note was the increase in Roth participation throughout the reservist and active duty Marine uniformed service population. Mr. McCray commented that he had a personal interaction with a member of the Air Force who did not contribute to the TSP, and

expressed that the TSP is not emphasized enough in the military branches. Mr. Long explained that there has been differing levels of TSP support among branches of the military, but that Roth is a game changer, in that the desire for a Roth option was strong across all branches. Mr. Long explained some of the efforts the Agency has undertaken to educate military members, including presentations by Mr. Emswiler to the Judge Advocate General.

b. Monthly Investment Performance Report

Ms. Ray reviewed the fund performance memorandum, entitled "September 2012 Performance Review – G, F, C, S, I, and L Funds" (attached). The first page compares BlackRock Funds' performance against their underlying indices. The tracking error has remained low, with some tracking error in the S Fund of 5 basis points for the month, and 43 basis points for the year-to-date, due to the optimization process. The I Fund also had a tracking error of 32 basis points, due to the tax effect of the index. Trading costs for all funds remain low.

For September, all the stock Funds were up 2.5 to 3 percent. Year to date, the C Fund is up 16 percent, the S Fund is up 14 percent, and the I Fund is up 12 percent.

BlackRock's proxy voting was audited, and there were no exceptions found.

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.

c. Legislative Report

Ms. Weaver reported that the legislative agenda relating to the TSP has been postponed until after the November election. Ms. Weaver also reported that the Agency participated in an ETAC meeting on October 9th, and discussed two legislative issues; the IRS levy and the auto-escalate provision, which are expected to see movement when Congress returns. Ms. Weaver informed ETAC of the GAO report on socially responsible investing, and discussed the annual report to Congress, which was delivered in June and discusses the fact that the Agency will be researching Mutual Fund options. ETAC responded that they did not see much demand for a Mutual Fund window, and expressed that they would be cautious about a window option. Mr. Long explained that the TSP Enhancement Act of 2009 allowed the option, but did not establish a requirement to offer a mutual fund window. There are positives and negatives to offering a mutual fund window, and the decision would have to be made by the Board in the future.

3. Quarterly Vendor Financial Report.

Ms. Crowder reviewed the June 2012 memorandum (attached) entitled "Quarterly Financial Assessment of TSP's Primary Vendors." Serco, which provides record keeping services, had very strong financial numbers for the first six months of 2012. They increased revenue by 4.3 percent, and their net profits increased by 19 percent.

BlackRock is the investment management service provider for the plan. BlackRock had a second quarter 2012 net income of 1.13 billion dollars, which is a 5 percent decrease since last year. BlackRock's assets under management also declined, but at this time the Agency has no concerns with BlackRock's viability.

Equinix Inc., which supports the Agency's primary and back-up data center facilities, has robust financials for the year, with revenues increasing 21 percent from the same quarter last year, and total revenue of 918.5 million dollars for the second quarter. Ms. Crowder explained that on September 4th Equinix announced its plan to sell sixteen international business exchange data centers, including one of the Agency's. This will result in a contractual change for the Agency, but does not require a move or any different services.

R.R. Donnelley & Sons, the vendor which provides the Agency's printing services, reported a net income of 285.3 million dollars, and net sales of six months of 5 billion dollars, down 3 percent from 5.2 billion for the same period last year. The Agency has no concerns about R.R. Donnelley.

Ms. Crowder also reported that the Agency had no concerns with MetLife, the Agency's annuity provider.

The Active Network, Inc., which runs the Agency's call center in Maryland, experienced a record-setting quarter, and the Agency has no concerns with the company's ability to support the Agency's operations.

4. Mid-Year Financial Audit Report.

Ms. Beemer introduced the Agency's auditors from CliftonLarsonAllen. The team includes Ms. Marie Caputo, Audit Partner; Mr. Bill Oliver, Quality Assurance Partner; Ms. Michele Chalmers, Financial Audit Senior Manager; and Mr. Bob Halpin, IT Senior Manager. Ms. Beemer explained that they would be presenting a mid-year review (attached) of our financial statements. It is not a full audit, but a review of where the Agency stands as of June 30th, and with respect to the outstanding findings from the previous year's audit. Ms. Caputo noted that a review is not as in-depth in scope as an audit. The year-end audit procedures will be much more extensive.

During their review, the auditors look to determine whether there were any material adjustments required to correct the financial statements or disclosures in order to bring them into compliance with Generally Accepted Accounting Principles. The team also evaluates where the Agency stands with the internal control comments which have been previously reported.

Mr. Halpin reviewed IT-related matters, and stated that this year there were nine IT-related findings, seven being prior-year matters carried over, and two new items. Mr. Halpin gave a brief over view of CliftonLarsonAllen's findings, and the Agency provided progress reports on the state of those recommendations. These recommendations included identifying that service level agreements were not in place with Serco or Serco's subcontractor, SunGard. Mr. Poppe responded that the TESS draft statement of work was released with many service-level requirements clearly articulating requirements for contractors.

Mr. Halpin reported that some individuals who had separated from employment still had current access to the Omni System. Mr. Halpin explained that he understood that this was being addressed as part of the process to formalize and promulgate policies related to access control identity and authorization. At the end of Mr. Halpin's presentation, Chairman Kennedy asked Mr. Halpin if there was anything that the Board needs to be aware of that may be lacking. Mr. Halpin responded that the actions indicated are reasonable to address the recommendations, and nothing stood out to cause concern.

5. Resource Management Review.

As part of the continuing education to ensure the Board members are aware of the purpose, functions, and key initiatives for each office, Ms. Goethe

presented (attached) an overview of the Office of Resource Management, and explained that there are two divisions, the Human Resources Division and the Administrative Services Division. Ms. Goethe explained that the mission of the office is to assist management with providing them the right people, in the right place, in the right space, with the right capabilities, and at the right time. Ms. Goethe highlighted some of the key accomplishments of the Administrative Services division over the last year, including relocating all of our equipment and people to the new office building. In the Human Resources division, additional staff has been hired to support the staffing and vacancy hiring workload. Ms. Goethe presented some of the strategic goals for the office, including a human capital plan and performance initiatives, as well as the office expansion space being planned for 2013 and 2014.

6. Office of the General Counsel Review.

Mr. Petrick presented (attached) an overview of the mission and responsibilities of the Office of General Counsel. The mission of OGC is to represent the interests of the participants and beneficiaries of the Thrift Savings Plan by providing advice to the Executive Director, Board members, and staff of the Federal Retirement Thrift Investment Board concerning their legal duties and responsibilities under the FERSA and other applicable laws. Mr. Petrick explained that OGC has a dual role, being both Agency counsel, and Plan counsel. Mr. Petrick explained to the Board areas he feels will be affecting his office in the near future, including privacy intiatives, death benefits, contracts, and human resources.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 11:12 a.m.

MOTION: That this meeting be adjourned.

James B. Petrick
Secretary

Attachments
1. Thrift Savings Fund Statistics
2. September 2012 Performance Review – G, F, C, S, I, and L Funds
3. Quarterly Financial Assessment of the TSP's Primary Vendors – Second Quarter 2012
4. CliftonLarsonAllen October 2012 Presentation
5. Thrift Savings Fund Financial Statements June 30, 2012
6. Resource Management Review
7. Office of General Counsel Review