



MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 20, 2009

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board convened a meeting of the Board members on July 20, 2009 at 9:00 a.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 were Thomas A. Fink of Alaska, member; Terrence A. Duffy, member, by telephone; Alejandro M. Sanchez of Florida, member; Gordon J. Whiting of New York, 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 Renée Wilder, Director, Research and Strategic Planning. Also in attendance were Mr. Blake Grossman, CEO of Barclays Global Investors (BGI), Mr. Laurence Fink, Chairman and CEO of BlackRock, Ms. Lillian Wan, Managing Director, BGI, and Mr. Patrick Dunne, Head, Securities Lending and Cash Management, BGI.

Chairman Saul welcomed the visitors from BGI and BlackRock and commented that the Agency has had a very good longstanding relationship with BGI.

1. Approval of the minutes of the June 16, 2009 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the June 16, 2009 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 16, 2009, be approved.

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

Mr. Long also welcomed the group from BGI and BlackRock and asked Ms. Wilder to present the Participant Activity Report.

a. Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). In June, the Fund continued to increase and posted a balance of \$215 billion. At one point the Fund was as low as \$195 billion so the Fund continues to recover.

The participation rate is holding steady at 83.8 percent. While participants have become more conservative in terms of their asset allocations the

Plan did not see a major bail out. The participation rate between May and June dipped slightly because of some decline in stocks and contributions. In June, the Plan also saw a bit of an increase in withdrawals and, therefore, there are participants who cannot contribute for six months. Some of this decline is seasonal and was also reflected between May and June of 2008 and November and December of 2008. Chairman Saul commented that the Plan took in \$2.1 billion of new money in June which shows that participants are still contributing. The participant base is also growing, and the Plan now has 4.12 billion participants. This number will increase even further when the Agency implements auto enrollment.

Ms. Moran explained that the President signed the Federal Retirement Reform Act of 2009 on June 22nd and, among other things, this law allows the Agency to initiate immediate agency contributions, which the Agency is currently implementing, and also automatic enrollment of new and rehired employees. The Agency will begin implementing auto enrollment next year. As far as immediate agency contributions, a new FERS employee's one percent agency contribution will begin immediately. Further, once new employees start contributing their own money, they will now automatically receive the agencies' matching contributions which should serve as an enticement to participate in the TSP. Ms. Moran estimates that this change will impact approximately 50,000 employees immediately. Mr. Long commented that the immediate agency matching will increase the attractiveness of the TSP for many employees who previously may have put off contributing until they received the agency match.

Ms. Moran noted that auto enrollment of employees will likely not be in place until approximately the spring of 2010. Auto enrollment will mean that new and rehired employees who make no TSP election will automatically have three percent of their pay contributed to the TSP. These employees will also receive the agency one percent and matching contributions. It is anticipated that employees will not miss the money in their paycheck and that they will have an incentive to continue contributing. These employees do have the option to change their contribution amount or to opt out. Mr. Long noted that the Plan's participation rate has stayed within a narrow band of between 83 and 87 percent for over a decade, and he anticipates that these changes will enable the Plan to move beyond these levels and increase participation.

Ms. Wilder then noted it appears for the month of the June that the Ready Reserve's participation rate dropped significantly. Ms. Wilder commented that in fact participation for the Ready Reserve did not drop but instead the decline reflects updated data which the Agency received in June from the Department of Defense. This new data impacted the denominator used in calculating the participation rate.

b. Legislative Report

Mr. Long noted that Mr. Trabucco could not attend the meeting. Now that the legislation has been pushed through, Mr. Trabucco will be working with ETAC as well as Capitol Hill to implement the recent legislative changes.

c. Quarterly Investment Performance Report

Ms. Ray reviewed the July 3, 2009 memorandum (attached), entitled "June 2009 Performance Review." For June, BGI's International Fund had a tracking error of negative 52 basis points, and year-to-date the Fund's tracking error is negative 135 basis points. This is due to BGI's fair value adjustments on May 29th and December 31st.

Year-to-date, BGI's small-mid cap fund has a tracking error of 153 basis points. In this fund, Barclays uses an optimization program, and, therefore, though there are 3,900 securities, BGI only purchases 2,700. BGI uses a quantitative system to weight the larger-cap securities to try to achieve the effect of the smaller-cap securities that BGI is not purchasing. In addition, there are approximately 80 or so publicly-traded partnerships (which are primarily energy-related such as oil and gas exploration), that cannot be owned in the fund because they could create unfavorable tax consequences for the tax-exempt accounts. This has resulted in significant tracking error over time. The good news is that BGI has been advocating for the index provider to remove these stocks since the tax-exempt accounts cannot own them, and the provider has decided to do so and will be phasing out all the publicly-traded partnerships in the underlying index beginning in September and finishing-up in December. This should go a long way toward reducing the 153 basis point tracking error.

Ms. Ray reviewed the trading costs for the month of June which were fairly low. Separately, she noted that the G Fund is paying 3.25 percent which is a great rate for daily liquidity.

All funds except the I Fund were up slightly in June, and this marks the fourth month in a row of positive returns. So far the returns are positive for July as well. Year-to-date, as of end of business on Friday, the S Fund is up 9.9 percent and the I Fund is up 8.1 percent.

For the month of June, the L Funds were slightly positive. Year-to-date, the L 2010 Fund's performance is much closer to the Income Fund because the L 2010 Fund is converging to the income fund asset allocation. Mr. Long commented that the Agency's conservative approach toward the L Funds, especially in the L 2010 Fund, protected employees who were close to retirement. The L 2010 Fund was down approximately 10 percent last year but other similar 2010 Funds were down between 24 and 29 percent. Participants have been reminded of the beneficial structure through the Highlights as well as Mr. Long's end-of-year newsletter.

For the third month in a row, participants transferred money out of the fixed income funds and into the equity funds. Over 601,850, or fifteen percent of participants, have L Fund accounts.

Ms. Ray noted that an independent audit showed no exceptions to BGI's proxy voting policy during the 1st quarter.

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.

3. Discussion of Pending BGI/BlackRock Merger.

Ms. Lillian Wan, Managing Director from Barclays Global Investors (BGI) and the Agency's client relationship officer, introduced Mr. Laurence Fink, Chairman and CEO of BlackRock, Mr. Blake Grossman, CEO of BGI, and Mr. Patrick Dunne, Head, Securities Lending and Cash Management at BGI.

Mr. Grossman discussed the proposed merger between BGI and BlackRock and the logic behind the arrangement. For quite a number of years, the two organizations have known each other well. BGI was a client of BlackRock's and

used its analytic tools and was able to see that the organizations' philosophies and cultures are well aligned. There are several reasons why BGI believes that this merger will benefit its largest, most sophisticated clients. A key reason is the significant expansion of total capabilities that result by virtue of combining BGI and BlackRock. There will now be more capability, intellectual capital, research resources, and state-of-the-art thinking regarding defined contribution plans standing behind the TSP relationship. Further, the increased scale will be a significant advantage in asset management and will enable the combined team to invest more in research and IT capabilities so that the organization is even more on the forefront as far as risk management. Mr. Grossman emphasized that the merger will not impact the basic investment philosophy as far as index strategies. The proposed merger is very well supported by BGI's senior management, and Mr. Grossman views it as a powerful combination which clients are looking for.

Mr. L. Fink then reviewed the presentation "Introducing BlackRock Global Investors-Investor Presentation, June 2009" (attached). BlackRock believes its status as a public firm is good for clients because it results in transparency, regulation, and supervision. BlackRock is going to be the largest pure-play asset manager in the world. BlackRock does not want to compete with its clients so 100 percent of its business is investment management and investment technology. BlackRock is not a bank, not an insurance company, and not a securities company. Mr. L. Fink does not believe it is a good combination to have a bank and investment management firm. The combination of BGI and BlackRock is important because the investment management business is difficult and requires a lot of people and global capabilities.

BlackRock Global Investors will be the largest investment management company, and its market capitalization will be approximately \$33 billion which is larger than many large banks. BGI and BlackRock have known each other for years and that was an important component of the merger. Mr. L. Fink emphasized that, depending on regulatory approvals, the merger will not close until December or January.

BlackRock will bring a historical and active management approach to the combination. The company has been known in its 22-year history for being innovative and providing tailored, customized solutions for its clients. The company has a division called BlackRock Solutions which provides leading-edge technology for risk management and supports several government clients, including the New York Federal Reserve and several central banks in Europe. BlackRock has one global technology platform so upon the merger with BGI, BlackRock Global Investors will be connected worldwide.

BGI brings a world-class entity in terms of index and scientific investing. It brings iShares and product innovation and is considered a leader in retirement solutions. Eighty-five percent of BGI's and BlackRock's businesses are not in competition as the businesses are different but the cultures are very similar.

Most investment mergers are difficult because of the integration risk and because of redundancy but there is little redundancy with this merger.

Mr. L. Fink noted that the investment teams that work on the TSP account will stay the same. During the merger process, the investors are not involved in the integration process so that clients continue to come first. The combined organization will have \$2.7 trillion in assets under management and world-class analytics and risk management. BGI and BlackRock have similar cultures as far as intensity, integrity, and the importance of teams.

Mr. L. Fink mentioned that he is very proud of BlackRock's corporate governance. BlackRock has three large investors, Bank of America, PNC and ultimately Barclays, who have agreed to vote affirmatively with the independent board. BlackRock Global Investors will have a nine-person independent board that will truly govern the firm and serve as an independent decision making body.

Mr. L. Fink believes that bringing these firms together is a transformational opportunity. Scale and awareness of the global market is becoming more and more critical in the investment management business. Scale will be especially important as the investment management area is more regulated. BlackRock has over 1,000 employees on its risk management team; risk management has always been a key component at BlackRock.

BlackRock Global Investors will be a fully integrated firm and will bring technology, investment, risk management, and client communication together and under one common platform. The organization will be balanced with 58 percent active assets under management, 34 percent passive, and 8 percent scientific. BlackRock manages and uses its risk management tools for clients globally and reviews over \$7 trillion of assets on behalf of clients on a regular basis. Freddie Mac and Fannie Mae and other agencies as well as international clients and sovereign wealth funds use BlackRock's systems to analyze risk. BGI's strength in scientific indexing and its superior position as far as indexing and equities will enhance BlackRock's leadership in risk management.

Mr. Grossman will be one of the key people running BlackRock Global Investors and will become a Vice Chairman and Head of Scientific Investments and will join the Office of the Chairman. Both firms spend a great deal of time on management sessions and succession management planning. Mr. L. Fink believes this merger will benefit the TSP.

BlackRock's investment portfolio is \$1.35 trillion and BGI's is \$1.5 trillion, and very modest amounts of BlackRock's business are in securities lending. The securities lending part of BlackRock will merge into BGI's securities lending program. Mr. T. Fink asked for a comparison between BlackRock's and BGI's approach as far as securities lending. There are two components to securities lending. There is the actual process of lending out the securities, and Mr. L. Fink

stated that BGI is as good at this as any firm, and then there is the process of cash management. BlackRock has a \$350 billion cash management business, and BGI's is approximately \$200 billion. While he cannot comment on BGI's risk strategy, Mr. L. Fink feels that BlackRock is a very strong cash manager. During the liquidity crisis of last year, none of BlackRock's clients lost money.

Mr. Grossman emphasized that BGI has a very long history in securities lending and has never had a client realize a loss in securities lending. Bringing the organizations together and increasing resources will benefit cash management activities from a risk and credit assessment standpoint. Mr. Grossman believes that the merger will benefit the securities lending program.

Mr. T. Fink emphasized that BGI has been doing a good job as far as securities lending, and he would like to take a very conservative approach to cash management and securities lending. BGI and BlackRock manage their cash very conservatively. Mr. Grossman added that since the market dislocations in 2007, BGI shifted funds to a lower risk, higher liquidity profile. There are some risks with securities lending but Mr. Grossman feels they are very low and can be managed effectively. Participants in the TSP have earned many hundreds of millions of dollars through the securities lending program.

BlackRock's regulators include the SEC, the Federal Reserve, the FSA, and the OCC. As far as corporate governance, the three largest shareholders are Bank of America, PNC, and Barclays. The members of BlackRock Global Investors' five-person management team will include Ms. Grossman, the President of BlackRock, two Chief Operating Officers and the Head of Client Services. There are also several committees, and the Office of the Chairman is the committee which handles the major policy issues and determines the direction of the firm. Mr. L. Fink works collaboratively and has overruled this committee only twice. BlackRock has an independent board of very successful global leaders from the financial community and a few non-industry members as well.

The three largest shareholders have agreed to let the independent directors control their votes indefinitely and gave their fiduciary responsibility to the board of directors. The shareholders do have blocking rights as far as mergers and dilution issues. Mr. Duffy emphasized that a lot of the activity that got companies in trouble over the past year was related to activity that could not be seen by the SEC. Mr. L. Fink commented that many financial institutions fell down due to balance sheet items and BlackRock does not lend. All of its over-the-counter transactions are on behalf of clients. If there is a counterparty, its transactions are fully collateralized. Mr. L. Fink stated that there was no failure as far as public investment firms on behalf of client accounts.

Chairman Saul stated that BlackRock has a reputation of the highest quality as a money manager institution. BGI has done a great job with the Plan and especially during recent tough times. This merger is a real plus for the Plan. Mr.

Long agreed and noted that the senior staff also fully supports the BlackRock/BGI merger and views it as a plus for the TSP and its participants.

4. Quarterly Vendor Financial Reports.

Mr. Petrick reviewed the July 10, 2009 memorandum (attached), entitled "Quarterly Financial Assessment of TSP's Primary Vendors – July 2009." This is first time that Mr. Petrick's group included BlackRock's financials in its review. Not surprisingly, as reported at previous meetings, a few companies have shown losses in the last several periods but Mr. Petrick does not see anything that puts any of the companies in jeopardy. Mr. Petrick's team continues to closely track the Agency's smaller vendors. Ms. Moran commented that the call centers are running well.

Switch & Data is still struggling to achieve profitability, and the Agency looks at them carefully. Switch & Data used most of the proceeds of its big stock sale to continue to expand. It has closed its unprofitable centers and expanded into new ones which has not allowed them to achieve near-term profitability. The company is committed to expansion. Mr. Hagerty noted that the Agency sends people to visit the facilities and monitors the care and conditions of the facilities as well as staff turnover and other factors. There have been no major disruptions.

5. IT Modernization Update.

Mr. Hagerty reviewed the July 20, 2009 "TSP Systems Modernization Update." The objective of the TSP Systems Modernization effort was to ensure that the Agency's systems had reliability, availability, security and scalability so that the TSP systems could deliver services under any circumstances. Mr. Hagerty's team is on schedule and on budget to make this happen. Relocating the Agency's primary data center caused somewhat of a schedule interruption but the relocation has been going as planned.

The backup data center in Pennsylvania has been upgraded with increased power and cooling capabilities to ensure that it can handle near and long-term expansion and related requirements. The mainframe and supported applications were successfully moved to the new data center. In the past couple of months Mr. Hagerty's group, and in particular Mr. Roy Friend, has devoted a significant amount of focus on the network infrastructure and ensuring that the new primary and backup mission critical links have been provisioned, tested, and put into service. The new equipment has been provisioned, sent to the primary data centers, interconnected and configured. Most importantly, the Agency successfully tested its failover design in a lab environment and now this equipment has been shipped out to the Agency's remote sites where Mr. Hagerty is confident the automatic failover and new network configuration will succeed.

The other ongoing, big initiative is the relocation of the Agency's server applications from the standalone distributed server environment to the IBM Blade VMWare virtualized server environment. This will enable dynamic scalability and is on target for a September 30th implementation date.

Moving forward through the end of September, Mr. Hagerty's team will continue to make sure that the network circuits are provisioned and tested and in production at both the primary and backup data centers. The team will be installing and testing all of the applications into the virtual server environment. Mr. Friend is working on a new backup solution for the Agency's disk drives. Depending on the outcome of lab tests, Mr. Hagerty has set aside approximately \$3 million of funds for final investment in this capability. Also, the team will be working on the implementation of a full-sized test database. Near the close of the fiscal year, Ms. Susan Smith's team will receive a significant amount of focus. The developers' workload is going to increase significantly over the coming months as the Agency upgrades the recordkeeping system and continues work on the Web redesign.

Ms. Moran noted that the beta Web site should be rolled out in the fall. Once the beta Web site is in place, the Agency will collect preliminary feedback from participants. Based on feedback from participants, it is likely that the Agency will have to do some tweaking to the site, and the full site will be implemented in 2010. Mr. Long's goal is to have the new Web site up in place by the first quarter of 2010.

Mr. Hagerty continued that Mr. Friend will be helping Ms. Moran and her group to improve the call center infrastructure. Over the past year and half, Mr. Hagerty's group has been working the hardware and network initiative on the modernization side, and Ms. Smith has been able to refine and improve the project management activities on her side. Some of the items in the next steps are a direct result of Ms. Smith's refinement and business improvement efforts.

By September 30th, the vast majority, roughly 90 percent, of the project will be completed. There will be one more investment of approximately \$3 million related to storage infrastructure but that is a part of the initial budget. The last ten percent of the project will probably involve divesting the Agency from the old data center. The Agency still has a very small footprint in the old data center. It is likely that the Agency will be moved out of the old data center during the first quarter of 2010.

Mr. Long commented that the modernization project puts the Agency in a dramatically better place as far as network and hardware and now the work will commence as far as software and applications. In particular the Agency has to get the resources in place to support a full-size test database. Chairman Saul commented that he would recommend getting the Web site complete as soon as possible as this is the Agency's face to its participants.

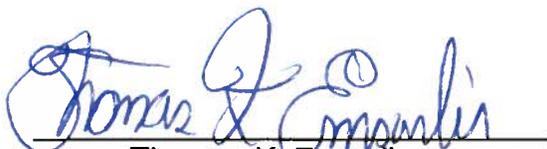
6. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting at 10:35 a.m. for a ten-minute break to be followed by a discussion of confidential procurement information and proprietary data.

At 11:42 a.m., upon completion of the executive session, the members reconvened the open portion of meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 11:42 a.m.

MOTION: That this meeting be adjourned.



Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. June 2009 Performance Review – G, F, C, S, I, and L Funds
3. Introducing BlackRock Global Investors – Investor Presentation 2009
4. Quarterly Financial Assessment of TSP's Primary Vendors – July 2009
5. TSP Systems Modernization Update – July 20, 2009