



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 23, 2012

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 23, 2012, at 10:00 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; Susan C. Crowder, Acting Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Kimberly A. Weaver, Director, External Affairs; Mark E. Walther, Chief Technology Officer; Renee C. Wilder, Director, Research and Strategic Planning; Thomas K. Emswiler, Director, Office of Benefits and Acting Secretary; Sophie T. Dmuchowski, Deputy Director, Office of Communications; Gisile Goethe, Acting Director, Resource Management; Anne Beemer, Acting Director, Enterprise Risk Management; Toni Bush-Neal, Assistant to the Director.

1. Approval of the minutes of the June 25, 2012 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the June 25, 2012 Board member meeting.

MOTION: That the minutes of the Board member meeting that was held on June 25, 2012 be approved.

2. 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 net cash flow into the Plan was approximately 770 million dollars in June, and the Plan assets increased to 313 billion dollars, a reflection of market activity. The FERS participation rate reached 86.5 percent, with 4.5 million participants in the Plan. The participation rate for active duty uniform services members continues to be approximately 40 percent, and Ms. Wilder hopes that number continues to increase.

The auto enrolled participation rates continue to be high, with an-opt out rate of just under 3 percent. The percentage of participants electing to opt out of auto-enrollment participation increased for the month, but is still well below the industry standard.

b. Monthly Investment Performance Report

Ms. Ray reviewed the fund performance memorandum, entitled "June 2012 Performance Review – G, F, C, S, I, and L Funds" (attached). The S Fund outperformed the index by 8 basis points, and by 17 points year-to-date. The I Fund outperformed the index by 6 basis points, and by 28 points year-to-date. Much of the tracking error in the I Fund is the result of the tax effect. The index is reduced for taxes paid but the TSP does not pay taxes.

The G Fund rate continued to decline. The 10 year note is down to 1.40 percent, from 1.65 percent, and the 30 year note is 2.48 percent, down from 2.75 percent. So far in July, the C Fund is up 15 basis points. The S Fund is down .5 percent and the I Fund is down a percentage point. The market activity reflects the negative news in Europe, particularly reports that Spain's bond yields are higher than usual and the possibility that underperforming banks will be shut down.

Ms. Ray asked the Board members to turn to page 6 of the Performance Review report, and explained the proxy voting policy. There were no exceptions found in the proxy voting for the quarter. 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.

c. Legislative Report

Ms. Weaver reported that the Highway Bill containing a phased retirement option was signed into law, but the annual leave provision for the TSP was not included. The other bill concerning the TSP was the auto escalation bill. Ms. Weaver expects that the Senate Committee will mark-up that bill sometime in July or August, and try to move it to the Senate floor in the fall.

d. Quarterly Vendor Financial Report

Ms. Crowder reviewed the July 19, 2012 memorandum, entitled "Quarterly Financial Assessment of TSP's Primary Vendors – March 2012" (attached). Ms. Crowder gave updates on two of the Agency's largest vendors, Serco and BlackRock. Serco continues to be awarded numerous Government contracts. The Agency has hired Gartner to help with the rebid of the record keeping contract Serco currently fulfills. BlackRock recently announced that Barclays exited its ownership in BlackRock, and Robert Diamond stepped down from the Board of Directors. Another Agency vendor, MetLife, had their Standard & Poor's rating increased to stable.

e. Calendar

Mr. Long and the Board members discussed upcoming calendar and scheduling issues.

f. Enterprise Risk Management Office

Ms. Beemer gave a presentation on Enterprise Risk Management. She explained that the Agency is responsible for 313 billion dollars in assets and over 4.5 million participants. The Agency works in an increasingly complex and high risk environment, and needs to move from dealing with risk in an ad hoc manner to addressing risk strategically. Risk management is applied in a strategic setting, across the enterprise, and designed to identify potential events that may affect the entity and to manage those risks. Ms. Beemer explained the process and requirements to get the Agency to a high standard of risk management, and to create a new function within the Agency. Chairman Kennedy stressed the importance of the risk management initiative.

g. Benefits Office Presentation

Mr. Long introduced Mr. Emswiler, and explained that he had asked Mr. Emswiler to give a presentation on one aspect of the Department of Benefits. Mr. Emswiler explained that by statute, amounts in the TSP are not subject to garnishment or other legal process except for some named exceptions. One of those exceptions is court orders for child support. The Office of Child Support Enforcement (OCSE) is tasked with helping states collect child support, and determined that 86,000 federal employees owe child support. The Office of General Counsel reviewed the OCSE

statue and determined that the FRTIB was required to participate in a program that would match federal employees owing child support with the names of TSP participants at OCSE's expense. In 2010 the Agency began the pilot program with three states, and averaged four court orders per month. In 2012, the Agency is up to 1,138 court orders per month, processed through the legal processing unit in Fair Oaks, Virginia. The sudden increase created problems for the Agency in terms of staffing, the electronic court order system, and a lack of uniformity between state requests for garnishment procedures. These problems were successfully resolved through hiring additional staff, training sessions for all state representatives, regulation changes, and some major changes to the court order electronic processing system.

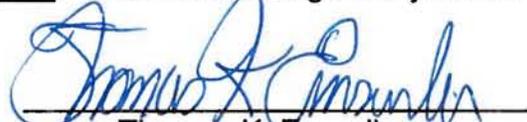
4. Closed Session

On a vote taken by the Chairman, the members closed the meeting at 10:58 a.m. for executive session.

At 11:30 a.m., upon completion of the executive session, the members reconvened the open portion of the meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 11:30 a.m.

MOTION: That this meeting be adjourned.


Thomas K. Emswiler
Acting Secretary

Attachments

1. Thrift Savings Fund Statistics
2. June 2012 Performance Review –G, F, C, S, I, and L Funds
3. Quarterly Financial Assessment of TSP's Primary Vendors – March 2012