



MINUTES OF THE MEETING OF THE BOARD MEMBERS

September 24, 2012

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on September 24, 2012, at 11:00 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, by telephone; 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; Mark E. Walther, Chief Technology Officer; 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 August 27, 2012 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the August 27, 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 August 27, 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). In August, the participation rate remained at 86.6 percent, and the G Fund continues to be the preferred investment of the participants. Ms. Wilder stated that the number of Roth accounts doubled in August, and 40,000 participants have invested over 30 million dollars in Roth balances.

b. Monthly Investment Performance Report

Ms. Ray reviewed the fund performance memorandum, entitled "August 2012 Performance Review – G, F, C, S, I, and L Funds" (attached). The first page compares BlackRock Funds' performance against their underlying indices. The

Small to Midcap Fund and the International Fund both experienced some tracking error. There was a fair value pricing on July 31st, causing the I Fund to underperform by 0.58 percent. In August it was reversed, and the I Fund outperformed the index by 0.6 percent. Year-to-date the I Fund is outperforming the index by 31 basis points, largely due to the tax effect of the index.

Trading costs for the F Fund were higher compared to other funds as a result of liquidity in the mortgage-backed securities market. So far in September, the C Fund is up almost 4 percent, the S Fund is up 4 percent, and the I Fund is up 5.8 percent.

c. Legislative Report

Ms. Weaver reported that the legislative agenda relating to the TSP have been postponed until after the November election.

3. Annual Budget Report.

Mr. Long explained that the budget report includes fiscal year 2012 expenditures, a proposed budget for fiscal year 2013, and a first estimate of the budget for fiscal year 2014.

Mr. Long briefly discussed the Agency's accomplishments during fiscal year 2012, stating that it was a year of significant challenge and significant accomplishment. Specifically, the Agency (1) delivered on its primary and ongoing strategic goal of dial-tone consistency; (2) initiated a Project Management framework and established a Project Management Office; (3) implemented the Roth option for participants; (4) relocated the Agency to a new building; (5) redesigned and launched frtib.gov, the Agency website; and (6) reorganized and restructured offices, including the addition of an Office of Enterprise Risk Management, an Office of Resource Management, and the division of Participant Services into two different offices focused on benefits and communication. In achieving those goals, the Agency is projected to use its entire allotted 143 million dollar budget for fiscal year 2012.

Mr. Long presented the proposed budget in terms of two categories, steady state and new initiatives. Steady state encompasses the requirements to run the organization in a consistent manner, including regular updates to hardware, software, and personnel. Five percent of the proposed budget would be allocated to new initiatives. Mr. Long explained that for fiscal year 2013, the proposed budget is 166 million dollars to run the plan in a steady state, and 175 million dollars to include the new initiatives. Mr. Long discussed the increase in the steady state budget for FY 2013. A large part of the increase is due to correcting personnel deficiencies in the Agency's internal staff.

Mr. Long reviewed past year's budgets in terms of the ratio of assets to budget, a proxy for expense ratio. In FY 2004, the ratio was approximately 7 basis

points, and current years have been approximately 4 to 5 basis points. In FY 2012, the ratio was 4.5 basis points, and the steady state budget for FY 2013 would be an estimated 4.7 basis points.

Mr. Long presented the planned new initiatives for FY 2013. He explained that in response to the Board's request to prioritize new initiatives, he would be presenting some as mission critical, necessary, or important. Enterprise Information Security Risk Management was presented as the most important and mission critical initiative, focused on IT security and the confidentiality, integrity, and availability of TSP data. A Human Capital Management Initiative, focused on hiring, performance management, training and development, was also identified as mission critical. Mr. Long also identified necessary initiatives, including integrated acquisition strategy, enterprise risk management, IT architecture of the future, and smarter decision-making. Mr. Long also outlined important initiatives, including a new financial management information system, new media options, and retirement income strategy planning.

Mr. Long explained that pursuing those new initiatives would move the proposed budget from 166 million dollars to 175 million dollars and from 4.7 basis points to an estimated 5 basis points, based on the budget to estimated assets ratio. He also presented a first estimate of a FY 2014 budget, which would include three major technology initiatives. Mr. Long stated that his goal is always to maintain a low-cost plan, and explained that he uses the basis points to illustrate that relative to the competitive market, the TSP is very inexpensive for the participant.

Chairman Kennedy thanked Mr. Long for his presentation, and encouraged the new Board members to ask questions. Mr. McCray and Ms. Bilyeu stated that they appreciated the detail of the budget proposal, and expressed some surprise at the growth predictions over FY 2012, 2013, and 2014. Chairman Kennedy agreed that the increase from FY 2012 to FY 2013 was a significant increase, but commented that the previous two years, the budget had remained relatively flat, and many projects were deferred. Mr. Long agreed that almost all of the increase aimed to resolve previous deficiencies, and explained that the meaningfully higher budget is a result of four years of relatively flat budgets. The Board members discussed the option to examine the budget mid-year at the May meeting, and concluded that a budget of 170.5 million would allow the Agency to implement its mission critical initiatives. Mr. Jones suggested that the budget vote include both a dollar value, and a target of 5.0 basis points.

Chairman Kennedy entertained a motion for approval of the fiscal year 2013 budget. The following motion was made, second, and adopted without objection.

MOTION: That the Agency's Fiscal Year 2013 Budget be approved in the amount of 170.5 million dollars; and that the Board also sets a target expense ratio of 5 basis points for fiscal year 2013.

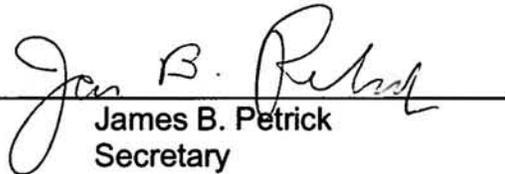
4. Closed Session.

On a vote taken by the Chairman, the members closed the meeting at 1:29 p.m. for executive session.

At 1:33 p.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 1:33 p.m.

MOTION: That this meeting be adjourned.


James B. Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. August 2012 Performance Review –G, F, C, S, I, and L Funds
3. Fiscal Year 2012 Budget and Fiscal Year 2014 Budget Estimate