



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD  
1250 H Street, NW Washington, DC 20005

MINUTES OF THE MEETING OF THE BOARD MEMBERS

August 20, 2007

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, by telephone, convened a meeting of the Board members on August 20, 2007, at 10:05 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, by telephone, Thomas A. Fink of Alaska, member; by telephone, Alejandro M. Sanchez of Florida, member; by telephone, 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; and Tracey A. Ray, Chief Investment Officer.

1. Approval of the minutes of the July 16, 2007 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the July 16, 2007 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting held on July 16, 2007 be approved.

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

a. Market Volatility.

Mr. Long reported on the effect the recent sub-prime lending crisis, concerns regarding the stability of one of the nation's largest mortgage providers, and stock market volatility have had on the TSP. Mr. Saul stated that such events were of great concern to the Board and noted that the Board had, on several occasions, asked Agency staff to ensure they were prepared for such events. Mr. Long responded that the Agency had initiated a tooth-to-tail review of its systems several months previously. He added that they had determined that the TSP's operating systems were able to handle high daily activity.

We will, however, provide a more detailed plan of proposed system upgrades at the September meeting as part of the budget process.

Mr. Hagerty noted that his review had included the mainframe computer, telecommunications, servers, storage areas, subsystems, et cetera. The recent events prompted a significant increase in interfund transfer requests. Such requests are low overhead transactions. That is, they primarily affect only the mainframe. Loans and withdrawals, on the other hand, are high overhead transactions because they affect multiple systems. The significant increase in interfund transfers did not cause any major perturbations in the system and the system proved capable of handling this increased workload. Mr. Hagerty will discuss his plan to upgrade the system for anticipated future increases in workload at the September Board meeting.

Mr. Sanchez asked for more details on the increase in interfund transfer activity. Mr. Long replied that Ms. Ray would give the specifics, but that activity had been relatively normal until Thursday, August 16<sup>th</sup>, when we had very large transfers out of the equity funds (the I Fund in particular). The I Fund is of greatest concern because the international markets close at 4:00 p.m. Consequently, we must complete the trades the next day and this will result in significant trading costs when the markets are falling.

Mr. Saul asked whether Barclays had performed as expected and Ms. Ray said that it had. Mr. Saul stated that this was a dry run for worse events; it helped us to prepare for a macro event in the markets because it shows us where the stress points are in our system and in our call centers.

Mr. Long noted that the discussion in the September meeting will demonstrate that Agency staff has prepared for a macro event. He added that call center activity had been essentially normal during these events. Ms. Moran stated that the percentage of calls related to investments had been three percent last month and only increased to four percent this month. The slight increase was attributable to the fact that 99 percent of interfund transfer activity was conducted via the web.

b. Monthly Participation Activity.

Mr. Long reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). He noted that the TSP fund balances had decreased to \$224 billion, a \$2 bil-

lion decrease from the previous month. We still have strong cash flows (\$1.9 billion this month), but negative returns in the capital markets caused the overall decrease. Returns are positive over a twelve month period but were not positive for the month. The participation rate among FERS participants fell slightly (to 85.7 percent) but the total number of participants increased slightly (to 3,785,000). The year-to-date expense ratio is one basis point, but this will increase before year's end. The participation rate for members of the uniformed services fell slightly. The assumption is that this was due to members of the reserve components being called to active duty and experiencing a loss of income which caused them to stop their TSP contributions. Chairman Saul stated that this likely was the cause because many reservists experience a tremendous financial hardship when they leave their civilian jobs to perform active duty. Mr. Long added that he may change future reports to expressly track trends in the active and reserve components.

b. Monthly Investment Performance Report.

Ms. Ray reviewed the August 9, 2007 memorandum (attached), on the performance of the G, F, C, S, I, and L Funds during July 2007.

She noted that the tracking error for the I Fund was 89 basis points because it was fair valued on July 31<sup>st</sup>. The year-to-date tracking error for the small-mid cap fund was 18 basis points due to the fund's sampling technique. The I Fund is only down 77 basis points year-to-date rather than 89 basis points due to the Fund's tax benefits.

Year-to-date trading costs for the I Fund are only \$3 million compared to \$13 million for all of last year. Last Thursday, \$730 million was transferred out of the I Fund. The overseas markets opened down on Friday and the trades were executed at these lower prices. Consequently, transaction costs for that one day were \$9.5 million. We also had \$307 million in transfers out of the S Fund and \$404 million out of the C Fund. This compares to March 5<sup>th</sup>, our biggest day of interfund activity, where we had a \$862 million transferred out of the I Fund, \$421 million out of the S Fund, and \$440 million out of the C Fund.

All of the equity funds were down for the month but still up for the year. As of August 17<sup>th</sup>, the C Fund was up 3.3 percent for the year, the S Fund was up 1.9 percent, and the

I Fund was up 2.2 percent (it had been up 8.33 percent through the end of July). The Lehman bond index is up one-half percent for the month, primarily due to an increase in the Treasury market. Mortgage-backed securities are up .6 for the month. Chairman Saul noted that this increase reflects a flight to quality – more people are investing in the safest securities. The G Fund rate is above the 3-month T-Bill rate for the first time in awhile.

The L Funds were also down for the month but still up for the year. The most volatile L Fund, the 2040 Fund, was still less volatile than the C and S Funds. It was down 2.5 percent for the month compared to 3.1 percent for the C Fund and 4.5 percent for the S Fund. Since inception, the 2030 and 2040 Funds have outperformed the C and S Funds.

C. MetLife Audit Report.

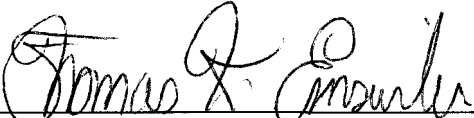
Ms. Moran reported that the Department of Labor KPMG team had been at the Board and at the MetLife facility in Georgia during February and March to audit annuity transactions. The audit covered the period April 1, 2004 through December 31, 2006. The audit was very clean. It concluded we had appropriate controls in place and had three recommendations: (1) they wanted documentation for deceased annuity processing (we have implemented this recommendation); (2) they wanted a clean-up of some coding in the MetLife system that resulted from some transition work (we anticipate completing this by September 30); and (3) they wanted written confirmation of withholding election changes (we have implemented this recommendation). None of these recommendations related to actual erroneous annuity payments. They were able to close all six audit recommendations still outstanding from the previous audits. We were very pleased with the results of this audit.

Chairman Saul concluded the meeting by saying that recent events were a wake-up call as to what could happen. It showed that our system can handle a significant increase in volume and that the call centers are ready and able to help participants. This was a good report and he expressed confidence that the Executive Director would ensure the system could handle an even more dramatic event. He assured the members that he speaks regularly with the Executive Director and that if anything arose that needed their attention either he or the Executive Director would let them know. Mr. Long assured Chairman Saul that he would keep him informed if anything sig-

nificant occurred. Chairman Saul let the senior staff know that they could also contact him at any time.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 10:30 a.m.

MOTION: That this meeting be adjourned.

  
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Thomas K. Emswiler  
Secretary

NOTE: Ace-Federal Reporters, Inc. made a verbatim transcript of this meeting.

#### Attachments

1. Thrift Savings Fund Statistics
2. July 2007 Performance Review - G, F, C, S, I, and L Funds