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

THRIFT SAVINGS PLAN

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 21, 2008

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 21, 2008, at 10:35 a.m., Eastern Time. The meeting was held at the Board's offices at 1250 H Street, N.W., Washington, D.C. Parts of the meeting were open to the public and parts of the meeting were closed to the public. In attendance were Thomas A. Fink of Alaska, member; Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member; Terrence A. Duffy of Illinois, member (by telephone); 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; Thomas J. Trabucco, Director, External Affairs; and Renée Wilder, Director, Research and Strategic Planning.

1. Approval of the minutes of the March 17, 2008 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the March 17, 2008 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting held on March 17, 2008, be approved.

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

Prior to the formal reports, Mr. Long introduced Renée Wilder, the Agency's newly hired Director of Research and Strategic Planning. Chairman Saul and the members welcomed her to the Agency.

Mr. Long noted that the comment period on the proposed regulation that would limit interfund transfers by participants closed on April 9, 2008. He stated that the Agency is in the process of reviewing those comments and hoped to forward the final regulation to the Federal Register for publication in the near future.

a. Counterparty Risk.

Blake Grossman, CEO of Barclays Global Investors and Michael Williams, Head of BGI's Global Index Markets Group US, reported on counterparty risk in its securities lending program. Counterparty risk is the risk that the borrower will not return the borrowed securities. See attached memorandum entitled BGI - Counterparty Risk.

Mr. Grossman noted that this year is the 20-year anniversary of the relationship between BGI and the TSP. He noted that BGI showed strong growth in both revenue and assets under management in 2007. It is part of Barclays Bank PLC. Barclays Bank PLC had revenue of £23 billion in 2007 and continues to be highly rated. He stated that TSP assets are separate and distinct from BGI. The assets belong solely to the TSP. If BGI were to experience turmoil, these assets would not be compromised.

Mr. Williams noted that it has been a volatile time for the markets. The S&P 500 is down 9 ½ percent and most other markets are down 9-10 percent. The U.S. Fixed income market is up 2.7 percent in the first quarter of 2008 due to a flight to quality. He noted that BGI has an obligation to track the indexes and that all four funds had positive tracking error in 2007 and are performing as expected in 2008.

Mr. Williams stated that borrowers principally provide cash as collateral when borrowing securities (99 percent of collateral is cash). BGI has an independent global credit group which aggressively manages counterparty risk. It reviews its primary borrowers annually and sets lending limits. It conducts on-going reviews of its primary borrowers. These reviews include site visits. Twice per year, BGI tests the procedures it would follow if a borrower defaulted. A borrower has defaulted twice. In both instances, neither BGI nor the client lost anything. BGI requires borrowers to provide collateral of 102 percent when it lends U.S. securities and 105 percent when it lends non-U.S. securities. It either receives this collateral in advance of the loan or simultaneously. It marks the securities to market daily and receives more collateral if required.

Chairman Saul stated that, as the TSP's managing fiduciaries, the safety of the participants' TSP accounts is their primary concern (which is why the Board members had asked the BGI representatives to attend this meeting). He noted that he has tremendous confidence in BGI and asked what BGI had learned from recent market events, what it would do differently, and what changes BGI had made to ensure the safety of TSP assets? Mr. Grossman responded that this is the most dislocated set of markets we have seen in many years. You are able to see connections between markets that are not normally apparent. BGI tries to provide a better, more robust framework to deal with market volatility. It monitors counterparties even more aggressively when markets are volatile. BGI is always looking for ways to enhance its investment strategies (e.g., to reduce trading costs). It has made no significant changes to its investment processes because these processes allowed BGI to continue to track the indexes despite the market volatility. Mr. Williams added that, when they see problems at a financial institution, the credit group reduces lending limits very quickly and credibly.

Mr. Sanchez asked how BGI segregates and protects TSP assets. Mr. Grossman replied that, under trust and regulatory law, TSP assets are completely separate and, no matter what BGI's or Barclays' financial posture would be, they could not be accessed by creditors. Mr. Sanchez equated this to the assets being locked in a closet. Mr. Grossman said that that was correct; they are completely segregated from any corporate assets of BGI or Barclays.

Mr. Fink asked whether any TSP assets had been loaned to Bear Stearns when it crashed. Mr. Grossman stated that he cannot publicly comment on specific borrowers (he could do so in executive session) but did state that BGI had had no issues involving counterparty risk with any of the firms that have recently been in the headlines. Mr. Sanchez asked whether BGI analyzed the creditworthiness of all firms who borrow securities from BGI. Mr. Williams said that they did and that the business and portfolio managers were also involved. Mr. Grossman added that if BGI has any reason to believe a borrower may have problems, BGI will scale back lending to that company or cut lending to zero. All loans are fully collateralized, and most collateral is in cash. BGI will lend securities only to companies that pass BGI's credit tests.

Chairman Saul asked, with regard to BGI's fixed income funds, whether BGI had made any changes due to recent problems with structured investment vehicles (SIVs) and the subprime mortgage crisis. Mr. Grossman stated that they are paying even closer attention to downgrades and defaults and that they manage these events as cost-effectively as possible. He added that, historically, BGI has outperformed the fixed income index. The fixed income portfolio is well diversified, which causes it to be very effective.

Mr. Sanchez asked how many BGI employees work on the TSP account. Mr. Grossman replied that the entire investment management and fixed income teams work on the TSP account. Mr. Williams added that 30 equity portfolio managers worked on the TSP accounts as did six fixed income managers, 120 employees involved with securities lending, fourteen employees conducting credit analyses, and 15 employees involved with counterparty credit.

b. Monthly Participant Activity Report.

Before Mr. Long gave the monthly participant activity report he asked Ms. Moran to show the members the TSP's Spring poster, "Here's to Your Health, Here's to Your Wealth." The Agency will provide the posters to the agencies and services to help remind employees and service members about the TSP.

Mr. Long then reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Total assets under management rose slightly to $223 billion. The twelve month returns of the G and F Funds have been positive while the twelve month returns of the C, S, and I Funds have been negative. The FERS participation rate is up slightly from 85.6 percent to 85.8 percent. Mr. Sanchez asked what the Agency was doing to encourage participation by the remaining 14.2 percent. Mr. Long said that the remaining 14.2 percent are employees who receive "Agency Automatic (1%) Contributions," but do not make their own contributions and, consequently, do not receive matching contributions. To overcome this inertia, the Agency has transmitted draft legislation to Congress that would automatically enroll new employees in the TSP. He also noted that the annual statement included a special message that encouraged these employees to participate in the TSP.

c. Legislative Report.

Mr. Trabucco reported that the nominations of Chairman Saul, Mr. Whiting, and Mr. Sanchez to be reappointed to the Federal Retirement Thrift Investment Board received bipartisan support at a recent Congressional hearing.

Mr. Trabucco stated that Congressman Danny Davis, the Chairman of the Subcommittee on the Federal Workforce, Postal Service and District of Columbia had scheduled a hearing for April 29th to consider the Agency's proposal to automatically enroll new employees in the TSP. Mr. Sanchez asked whether this proposal would apply to members of the uniformed services. Mr. Trabucco stated that the uniformed services were still considering the proposal and that the Agency would be respectful of their views. Chairman Saul asked about the status of the proposal with the Senate. Mr. Trabucco stated that there was definitely interest but that the issue is cost. Because the legislation will reduce revenue, the Congress must find offsets before it can enact the proposal. Such offsets can only be found in a major bill, such as a tax bill.

3. Quarterly Reports.

a. Investment Performance and Policy Review.

Ms. Ray reviewed the April 10, 2008 memorandum (attached), entitled "March 2008 Performance Review - G, F, C, S, I, and L Funds."

She noted that, in March, the I Fund outperformed its index by 120 basis points due to a fair value adjustment on February 29th. Year to date, the Fixed Income Fund has outperformed its index by 11 basis points due to sampling. In March, the S Fund outperformed its index by 33 basis points (year to date by 30 basis points) due to sampling. Trading costs for the C Fund were five basis points in March.

Ms. Ray stated that the dollar amount traded in the F Fund in March ($561 million) was still high. Participants liquidated from the C Fund every day but one in March. I Fund trades were under a billion dollars for the second month in a row. The equity funds have shown positive returns so far in April but, for the year, their returns have been negative. Year to date, the L Funds have outperformed the C, S, and I Funds. Participants continue to transfer their account balances from the equity funds to the fixed income funds.

Ms. Ray said that an audit of Barclays' proxy votes showed no exceptions.

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.

b. Quarterly Vendor Financial Report.

Mr. Petrick gave the quarterly vendor financial report (attached). He noted that SI International has continued its pattern of growth through acquisition. Barclays continues to greatly exceed the required capitalization standard. Switch and Data's financials continue to be affected by its successful IPO. Although it is still not profitable, it did receive $157.5 million in new debt financing, which seems to be a vote of confidence from the lenders. R.R. Donnelley and Sons reported a loss in 2007 (which is unprecedented for it). Since we use its services on a project-by-project basis, even a significant downturn would not likely affect TSP operations. MetLife experienced a $4.5 billion investment loss. However, this is a very small percentage of its portfolio. MetLife was profitable in

2007 and has strong ratings. Mr. Fink added that MetLife's net worth was excellent.

4. Financial Audit.

Melissa Krause presented the results of Deloitte and Touche's review of the Agency's financial statements (see attached PowerPoint presentation). Deloitte and Touche issued an unqualified opinion--the Agency's financial statements fairly presented the net assets and the changes in net assets and were in conformity with accounting principles in all material respects. The work was performed at the Agency, SI International (Fair Oaks), Switch & Data (Pittsburgh), and SunGard (Birmingham). The March 26, 2007 memorandum of Deloitte and Touche (attached) was an unqualified clean opinion.

The audit examined internal controls over financial reporting and the Agency's processes to assess and manage risks. It found no material weaknesses in internal controls. The audit included three recommendations: (1) that the Agency's IT management consider implementing procedures to review user access to system resources; (2) that the Agency continue its plan to implement network and system change management procedures; and (3) that the Agency continue to emphasize reconciling Omni and Barclays participant data. Mr. Long stated that Agency staff concurred with all three recommendations.

Mr. Sanchez asked Ms. Krause what were her top two concerns. Ms. Krauss stated that she had no major concerns. She noted that the Agency's emphasis on controls, which started about a year and a half ago, needs to continue.

Mr. Saul commented that the Board serves as the Agency's audit committee and Deloitte and Touche must feel free to contact them with any concerns. Ms. Krause stated that she would do so and added that they would return for the mid-year review.

Mr. Sanchez challenged the Deloitte team to be aggressive in its audits. He urged them to strive to find anything and everything that needed improvement. He added that when Deloitte conducts such an audit, but still issues an unqualified opinion, it assures the Board members that everything at the Agency is being conducted properly.

Mr. Fink commented that he believed forfeitures should be reflected on the TSP's financial statements (available at www.frtib.gov) in some manner other than as a footnote and that loan fees should not be reflected as participant contributions. Mr. Petrick said that a discussion of loan fees had been added to the financial statement (see page six) in response to Mr. Fink's comments in 2007. Mr. Fink stated that it should be shown as income and not as participant money. Mr. Petrick noted that Deloitte concurred that a footnote was the best place to show both items. Ms. Krause noted that these items do not represent new money coming into the Thrift Savings Fund.

3. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting at 11:50 a.m. for a discussion of confidential vendor financial data and personnel matters.

At 12:39 p.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 Fink adjourned the meeting at 12:40 p.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Secretary

Attachments

1. BGI - Counterparty Risk
2. Thrift Savings Fund Statistics
3. March 2008 Performance Review - G, F, C, S, I, and L Funds
4. Quarterly Financial Assessment of TSP's Primary Vendors - April 2008
5. Deloitte - Federal Retirement Thrift Investment Board, Thrift Savings Plan CY 2007 Audit