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

THRIFT SAVINGS PLAN

MINUTES OF THE MEETING OF THE BOARD MEMBERS

December 15, 2008

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, by telephone, convened a meeting of the Board members on December 15, 2008, at 10:00 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, by telephone, Terrence A. Duffy of Illinois, member; 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; 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 November 24, 2008 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the November 24, 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 November 24, 2008, be approved.

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

Mr. Long stated that November was another challenging month in the capital markets and a difficult time for investors and TSP participants. It is important, however, to remind long-term investors, who represent the majority of TSP participants, that they continue to need a long-term investment plan. Most experts agree that a long-term investment strategy should have a portion of assets in equities and equity-like investments. Mr. Long noted that this is a difficult time, but the Agency is doing its best to communicate with participants in order to help them endure this challenging period.

Mr. Long noted that a discussion of the Agency's Web site will be added to the May Board meeting agenda. Mr. Long selected May because this meeting will be in-person and will facilitate a live demonstration.

a. Monthly Participant Activity Report

Ms. Wilder then reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). In November, the Plan balance fell below $200 billion from its high in May of $234 billion. Given the steep declines in the equity markets, this drop was not unexpected, but it is certainly not the way the Agency would like to see things go. Ms. Wilder also noted that the Plan's participation rate declined slightly to 84.4 percent from 85 percent. The current participation rate is the lowest it is has been since September of 1997. The current number of participants is 3.9 million.

Overall, the number of loans has been a bit higher than in 2007 but, relative to other plans and considering the growing participant base, loan and withdrawal activity has been better than expected. Participants were, for the most part, keeping their money in the TSP. During November, the active duty participation rate held steady at 36.3 percent, and the overall participation rate for uniformed services held at 27.4 percent.

b. Legislative Report

Mr. Trabucco reported on two key items. First, the new leaders of the House Committee on Oversight and Government Reform have been determined. Edolphus Towns of New York will be the new chairman, and Darrell Issa of California will be the new ranking member. These changes are a result of Congressman Waxman moving to the Committee on Energy and Commerce and Congressman Davis retiring. By way of background, Congressman Issa has been fairly active for the last six months of the Committee, but he has not been focused on the TSP. Similarly, Congressman Towns has also been a subcommittee chairman for some time, but his focus has not been in the benefits area. The Agency will be meeting with the new staff they assemble to understand their interests and to discuss the Agency's activities with the 111th Congress.

Second, last week the Agency received a visit from a member of the President-elect's transition team. He was very professional and had done his homework. His questions were focused on two areas: governance (including the current situation regarding Board nominations) and future changes to the TSP including those proposed in H.R. 1108 which passed the House this year but did not pass the Senate.

Regarding the Board member nominations, Mr. Trabucco advised the representative from the President-elect's team of the institutional concern with the fact that not one of the five Board members is now serving in a term. All Board members are in holdover status. Mr. Trabucco advised him that this situation is unprecedented. During the transition from Clinton to Bush, there were two members serving in terms. The Agency advised the Clinton administration about its concern with that situation and on January 3, 2001, the Clinton team made two additional recess appointments. This brought the number of members serving in terms on the Board to four during the transition.

Mr. Trabucco noted that the Agency's enabling legislation set-up staggered terms to support policy continuity and ongoing institutional knowledge. These goals would be frustrated if five new Board members were appointed simultaneously.

Over the past year-and-a-half, the Agency appeared to be making progress with the renomination of three Board members in May 2007, and their bipartisan Senate Committee approval in May 2008. The nominations were even hotlined in the Senate where they were included with a large group of nominees scheduled for Senate votes just days before the Memorial Day recess. However, the Senate leadership pulled just those three nominations from the list, and they have been stalled ever since.

The Agency has advised the Senate leadership and the Bush administration of its concern. The Agency has also advised the incoming Obama administration. Employee Thrift Advisory Council members have also written to the

Senate leadership and are now actively advising the transition team of their support for the Board nominees. Mr. Trabucco noted that, although the hour is late, it is his hope that this situation can be addressed in the next few weeks.

With regard to H.R. 1108, Mr. Trabucco advised the transition team representative that two major provisions - automatic enrollment and L Fund default investments - were requested by the Board, and that the Agency is currently surveying participants on the Roth and mutual fund window proposals. Finally, Mr. Trabucco noted that there are some additional matters that the Agency would like to address in legislation after the 111th Congress convenes in January, and, as expected, the legislation is reintroduced.

Mr. Long commended Mr. Trabucco on his report and reiterated the institutional concern regarding the possibility of a complete turnover of Board members and the Agency's interest in the favorable piece of legislation - H.R. 1108.

c. Investment Performance Review

Ms. Ray reviewed the December 9, 2008 memorandum (attached), entitled "November 2008 Performance Review - G, F, C, S, I, and L Funds." During November, the small-mid cap fund outperformed the BGI Fund by 18 basis points and, year-to-date, has outperformed the Fund by 43 basis points as a result of the sampling technique used by the Fund.

The International Fund underperformed by 115 basis points. That was due to a fair value adjustment on October 31. Because there was no fair value adjustment on November 30, the year-to-date performance is unaffected, and the tracking error is a positive 22 basis points. This is due to the tax effect in the Fund.

Year-to-date, the Fixed Income Fund has a tracking error of 17 basis points. This is due to sampling and also to a class action settlement that was in January.

In looking at trading activity, Ms. Ray noted that in October, the I Fund had a $8.9 million credit which was 58 basis points. As a result of the volatile market conditions, in November, the I Fund's trading costs were $6.3 million which cost 63 basis points.

The G Fund rate fell relatively dramatically in the month of December. The rate fell 100 basis points from 3.75 percent to 2.75 percent. This is a result of what happened to Treasury rates during the month of November. Ten-year Treasury note rates fell from 3.96 percent to 2.92 which was a 100 basis points drop. There was a similar drop in the 30-year Treasury rates as well.

In November, the TSP funds continued October's negative performance. However, despite the overall losses in November, the results were worse in the middle of the month. For example, at the lows near November 20, the C Fund was down 22 percent, the S Fund was down 28 percent, and the I Fund was down 19 percent. However, there was a very sharp rally during the last five days of the month which brought the Funds to the final returns listed in the report.

Ms. Ray reported that month-to-date for December, the market has been mostly unchanged. The C Fund is down 1.7 percent, the S Fund is down 1.2 percent and the I Fund continues its outperformance of the equity funds at 2.9 percent. Most of these gains in the I Fund are due to the falling dollar; so far, the dollar has been very weak in December.

The F Fund had a positive 3.3 percent return and that was the best month for the F Fund since June of 1995. This is a reflection of what happened in the Treasury bond rates and the fact that the credit part of the sector has improved relative to the rest of the year.

Looking at the L Funds, as expected, when the markets are down, the L 2040 Fund performed the worst, and the L Income Fund performed the best. Interfund transfer activity fell dramatically from 268,000 transactions in October to 112,000 in November. This activity was due primarily to money leaving the Funds and going into the G Fund. Ms. Ray noted that almost $1 billion was transferred into the G Fund.

Mr. Whiting then requested that Mr. Long and his team focus on the health and financial performance of the Agency's annuity providers. He stated that, though he knows that the Agency monitors annuity vendor performance, he believes it would be prudent to focus on this issue a bit more.

Mr. Long noted that the Agency's annuity provider is MetLife. The Agency hired MetLife via a competitive bidding process, and the Agency formally reviews its vendors', including MetLife's, financials on a quarterly basis. Mr. Long is going to work with Mr. Petrick and draft a report which addresses requiring the Agency's annuity vendor to be licensed in each state. Ms. Moran added that the Agency has been talking to MetLife about this.

Mr. Whiting noted that he did not have any specific concerns about MetLife's financial health. He stated it would be interesting for him to understand more about qualification and state insurance funds.

On a vote taken by the Secretary before the meeting, the members closed the meeting at 10:19 a.m. for a discussion of personnel.

5. Closed Session.

At 10:27, upon completion of the closed 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 10:27 a.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics

2. November 2008 Performance Review - G, F, C, S, I, and L Funds