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

THRIFT SAVINGS PLAN

MINUTES OF THE MEETING OF THE BOARD MEMBERS

June 16, 2009

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, by telephone, convened a meeting of the Board members on June 16, 2009, at 10:01 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; Tracey A. Ray, Chief Investment Officer; and Thomas J. Trabucco, Director, External Affairs.

1. Approval of the minutes of the May 18, 2009 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the May 18, 2009 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 May 18, 2009, be approved.

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

Mr. Long commented that it has been a very busy month for the Agency. First, there was important legislation that passed the Senate and House. This legislation is on its way to the President for signature. This legislation will drive important and critical changes to the TSP and will shape the Agency's strategic plan for the next two years. Mr. Long recognized the efforts of Mr. Trabucco who sheparded this legislation through Capitol Hill. Chairman Saul agreed and also noted the contributions by the Chairman of ETAC, Mr. James Sauber.

Mr. Long also noted that BlackRock made an offer to purchase BGI, the Agency's investment manager. While this is not yet final, the planned purchase of BGI by BlackRock is a very significant event and will be discussed later in the meeting.

a. Participant Activity Report

Mr. Long then reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). In May, the Fund had a good month and was up \$8 billion from the previous month and posted a balance of \$213 billion. Returns over the 12-month period are still negative but these negative returns are shrinking because of the favorable performance during the course of the month.

The number of participants continues to grow, and the total number of Plan participants is 4,080,000. The participation rate is holding steady at 84.6 percent. The number of loans is also holding steady, and the Plan continues to be the lowest cost plan. The uniformed services' participation rates continue their slow and steady improvement moving from 37.2 to 37.5 percent among Active Duty.

Mr. Sanchez requested that the Agency and Board members visit with the Pentagon in order to raise awareness of the TSP. Mr. Long commented that the Agency does try to get the attention of the Pentagon on a regular basis and that it has had such a meeting before. The recent legislative process made it clear that some people in the Pentagon were very favorable towards the TSP but others were not. Mr. Trabucco added that the Agency is going to be very busy over the next two years implementing the legislative changes. Mr. Long also noted that the Agency had met with leaders at the Pentagon and that meeting did not make a difference. The Agency is focusing on educational efforts led by Ms. Gisele Goethe.

b. Quarterly Investment Performance Report

Ms. Ray reviewed the June 5, 2009 memorandum (attached), entitled "May 2009 Performance Review." BGI's International Fund had a monthly tracking error of 159 basis points. Seventy basis points are due to reversing last month's negative 70 point tracking error and the rest is due to another fair value adjustment on May 29th. Year-to-date, there is a negative 79 basis point tracking error which is also a result of the fair value adjustment. Year-to-date, BGI's small-mid cap fund has a negative 139 basis point tracking error. This is due to the optimization strategy used by BGI.

Trading costs were low for the month of May. The G Fund rate of return for the month of June is 3.25 percent. The G Fund is benefitting from the fact that its yield is based on longer-term Treasuries.

The I Fund had a 13 percent return for the month and was also up 12 percent last month. The other equity funds were up for the month but not up as much as the I Fund. Much of the return in the I Fund is due to the decline in the dollar. Year-to-date, the I Fund is the best performing fund but it is the worst performing over the last 12 months.

As expected with rising markets, the L Funds' returns increased in May, and the L 2040 Fund had the best performance with a 6.2 percent return. Year-to-date, all of the L Funds are positive as are all of the underlying funds. Since inception, three of the L Funds have positive returns on an annualized basis. Since inception, the L 2040 Fund, the most aggressive fund, is down 1.73 percent which is substantially better than how the C and the S Funds have performed. This is because of the L 2040's exposure to fixed-income markets via the G and F Funds.

Participants continue to transfer money out of the fixed income funds. Over $1.5 billion was transferred into equity funds this month.

Ms. Ray then discussed the proposed merger between BlackRock and BGI. Ms. Ray noted that several months ago, Barclays had come to an agreement to sell the iShares part of BGI to CVC, a private equity firm, for $5 billion. The iShares business is the exchange-traded funds (ETF) business, and the asset management business was going to remain at Barclays. As part of the merger agreement, there was a provision which permitted Barclays to spend the next 90 days trying to secure a better offer for iShares or for all of BGI. During this time, Barclays received a very attractive offer from BlackRock.

BlackRock is a very well-regarded U.S. money management firm. It is known for its quantitative techniques and risk analytic tools. BlackRock is buying BGI for $13.5 billion. Barclays will retain some ownership in BGI, and all of the senior management at BGI is staying in place. Mr. Blake Grossman, CEO of BGI, is going to become Vice Chairman of BlackRock. Ms. Ray believes the proposed acquisition is good news because BGI will now be part of a firm whose primary business is asset management as opposed to being a subsidiary of a bank.

Mr. Long noted that the proposed acquisition impacts elements of the Agency's contracts, and, therefore, suggested that the Board vote to include a discussion of the proposed merger's impact on procurement during the closed session. This vote is necessary because this development came at the last minute, and the Agency was not able to list this agenda item in the Board material. The following motion was made, seconded, and adopted without objection:

> MOTION: Whereas the recent proposed acquisition of BGI by BlackRock requires discussion of procurement information and proprietary data in Executive Session, and no earlier announcement was possible; therefore the Board votes to discuss these matters in Executive Session.

c. Legislative Report

Mr. Trabucco then discussed HR 1256, the so-called Tobacco Bill, and in particular Title I of Division B, the Federal Retirement Reform Act of 2009 (attached). Mr. Trabucco noted that the Agency has had a good deal of success with its legislative agenda. Last Thursday, the Senate passed the tobacco legislation, which included a number of provisions regarding the TSP. The House followed suit on Friday, and the Administration has announced that the President will sign the legislation.

The first section, Section 102, regarding Automatic Enrollments and Immediate Employing Agency Contributions, has been a long-time Board legislative goal. Currently, there is a six-month to one-year waiting period before the Agency Automatic (1%) Contributions and matching contributions start for new employees. This change will allow agency contributions to begin immediately. When the TSP was established, it was not uncommon for plans to have a one-year waiting period. However, last year, the Profit Sharing Council of America came out with a study showing that 65 percent of the large 401(k) plans now provide immediate employer contributions. This legislative change follows suit with what is happening in the industry and is a terrific benefit for participants. Now when new employees come in, if they decide to forego contributing to the TSP, they are giving up immediate matching contributions. The Agency expects that this change will boost participation.

Mr. Long noted that this is a major victory for the Plan and that the Agency is moving very quickly to modify its regulations to comply with the law. Ms. Moran noted that the FRTIB is working with the agencies so that all FERS employees will be receiving employer contributions within the next month or so. Some agencies have to make system changes in order to accommodate this change.

Mr. Trabucco then discussed automatic enrollment for the uniformed services. Two year ago, the Agency met with senior leaders of the uniformed services to begin discussions on automatic enrollment. There was some concern raised but this was overcome because the Agency showed a willingness to accommodate the uniformed services' interests. This meeting was followed by a letter from Dr. Chu, the Undersecretary of Personnel and Readiness in the Department of Defense, which suggested that there were three areas where the uniformed services would like to see changes in the Agency's approach. First, since each service has different compensation and personnel goals, it was suggested to have automatic enrollment optional for each service. Second, DOD wanted the G Fund, not the L Funds, to remain as the default fund. Third, DOD recommended adding a Roth feature to the TSP. Dr. Chu indicated that if the Roth feature was included, the uniformed services would support automatic enrollment. The Agency accommodated these requests which were part of the bill approved by the House.

When the bill arrived in the Senate, Admiral Mullen, the Chairman of the Joint Chiefs, wrote a letter to Senator McCain expressing his desire that the option for the services to participate in automatic enrollment be switched so that Service Secretaries were required to opt-in to automatic enrollment rather than opt-out of automatic enrollment. When this letter arrived on the Hill, the Agency let its committee know that it would accommodate this concern and this request was accommodated. Subsequently, the Agency learned that Senator McCain had offered an amendment and made it part of the Dodd substitute which exempted the uniformed services from automatic enrollment. Mr. Trabucco noted that when he learned of this change he was concerned that the Board, via its conversations with the Department of Defense (DOD) and others, had not accommodated the uniformed services' concerns. However, the Employee Thrift Advisory Council (ETAC) representative from DOD assured Mr. Trabucco that the Agency had accommodated its concerns and that this change was beyond anyone's control. The uniformed services are exempted from automatic enrollment but the Agency will continue to work with them on this issue.

Mr. Trabucco then discussed the Roth provision. By a vote of three to one, the Board approved adding the Roth feature to the Plan at the April Board meeting. Adding the Roth feature is a very big undertaking and likely a two-year project.

Chairman Saul noted that the Board would like a schedule regarding the implementation timeline for the Roth feature. Mr. Long noted that the Agency is currently working on multiple projects. Right now, the Agency is working on immediate employer contributions. Then the Agency will begin working on automatic enrollment and spousal accounts. After this, the Agency will begin planning its work regarding the Roth feature. At this point, the Agency does not have specific implementation details. The Roth feature does not have to be implemented by a certain time but only as soon as practicable.

Because the Plan is undergoing multiple changes, e.g., systems, legislation and the Website, Chairman Saul stated that he would like Mr. Long to present a business plan to the Board. Mr. Long noted that the Agency's strategic plan incorporates many of these activities. Because of the recent changes, Chairman Saul noted that he would like to review this again.

Mr. Trabucco then discussed the mutual fund window option. When the Board considered the proposal to add a mutual fund window to the Plan, it was a split vote. Consequently, the Agency did not seek nor oppose this legislative proposal. There was support for the mutual fund window on the Hill and in the Administration. The Agency's primary concern was that the House language had been crafted in such a way that the Executive Director would have been responsible for evaluating each of the funds offered through the mutual fund window. This arrangement was impractical. The Agency worked with the House and Senate and had this language changed so that the window would be consistent with those offered in private sector plans. In other words, the competition would be among the providers and would not focus on the funds that are available from that provider's platform.

This is a permissive option, and the Board is not required to add a mutual fund window. The bill also grants the Agency flexibility as far as implementation. Members of ETAC have mixed views on the proposal. While they see the benefits that it offers, they also see that it could potentially complicate the TSP, and the Plan's hallmark is its simplicity. Additionally, members of ETAC believe that employees should not be allowed to put all of their retirement funds into a narrow investment. They have discussed placing a limit on the amount that can pass through the window. Should the Agency implement such a feature, it is open to adding such a restriction via its regulations.

Chairman Saul stated that he would like to discuss the mutual fund window proposal with the Agency's staff. He would like a discussion of the mutual fund window added to the Board's discussion of the Agency's strategic plan. Mr. Long emphasized that the Agency is not going to advance on the mutual fund proposal until it has further discussions with the Board and ETAC.

Member Fink then asked about the bill's mention of reporting companies' diversity demographics. This was a proposal that was offered in the House by Congressman Danny Davis and requires the Agency to submit a report regarding the racial diversity of the Agency's vendors which provide asset management services. The Agency views this as a simple reporting requirement. During the procurement process the Agency will require its potential vendors to submit diversity information. The Agency will then forward the diversity demographics of its successful vendor to Congress. Mr. Long emphasized that this provision is only a reporting requirement and does not call on the Agency to do anything further. Chairman Saul emphasized that the policy of the Board has always been to hire the best people it can at the most competitive price in order to benefit the participants.

The next provision of the bill extends the acknowledgement of risk feature to the mutual fund window. Currently any participant who invests in the C, S, I, and F Funds must sign an acknowledgement of risk. This provision states that participants who wish to send funds through the mutual fund window will have to sign the same acknowledgement.

The bill also provides the Agency with administrative subpoena authority. The Board unanimously supported this provision which will enable the Agency to quickly trace money in cases of fraud or error.

The bill also clarified the application of the Mandatory Victims Restitution Act (MVRA) and enumerated all alienation provisions which apply to the TSP in 5 U.S.C. § 8437. As Member Fink suggested, the Agency did not push for the application of the MVRA one way or another but simply brought it to the attention of its committee. By amending Title 5 in order to make the MVRA applicable to the Agency, it is clear that any future alienation provisions also must be codified in Title 5 in order to be applicable to the Agency.

The bill also allows the spouses of deceased participants to leave the funds in their spouses' accounts in the TSP and have beneficiary accounts. This was a proposal initiated by ETAC and unanimously supported by the Board.

Finally, the bill contains two provisions regarding the uniformed services. These provisions were offered in the House Committee and express a sense of Congress that the uniformed services should have a retirement system at least as generous as the one available to civilian employees and to again examine the idea of authorizing matching TSP contributions for members of the uniformed services. These provisions were put into the bill by Congressman Darrell Issa who is the Ranking Member of the House Committee on Government Reform and Oversight. This provision may seem incongruous because it was put into the bill during the House consideration and, at that time, the uniformed services were still included in the automatic enrollment provision.

Chairman Saul suggested that this provision grants the Agency a new opportunity to discuss the TSP with the uniformed services and potentially return to the Pentagon. Mr. Trabucco explained that this provision, which is the sense of Congress, is not binding and also noted that the Agency did make progress when it discussed the TSP with many of the most senior leaders at the Pentagon. Ultimately, the Senate did not agree with the proposal regarding automatic enrollment. Mr. Long added that sometimes discussions have no effect because the right people are not involved. However, this was not the case as far as the Agency's discussions with the uniformed services regarding these legislative proposals. The Agency involved three-star generals from all the services, the Chairman of the Joint Chiefs of Staff, the Undersecretary for Personnel and Readiness, and Senator McCain. The Agency will continue to reach out to the uniformed services but wants to set expectations that changing people's minds may not happen in the short-term.

Chairman Saul again commended Mr. Trabucco and the Agency's staff for their hard work in pushing through the recent legislative changes.

3. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting at 10:47 a.m. for a discussion of confidential procurement information and proprietary data.

At 11:13 a.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 Saul adjourned the meeting at 11:13 a.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Secretary

Attachments
1. Thrift Savings Fund Statistics
2. May 2009 Performance Review – G, F, C, S, I, and L Funds
3. Title I of Division B, the Federal Retirement Reform Act of 2009