Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, by telephone, convened a meeting of the Board members on March 16, 2009, 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. Emwiler, 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 February 17, 2009 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the February 17, 2009 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting held on February 17, 2009, be approved.

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

Mr. Long noted that the month of February was a difficult one and asked Ms. Wilder to present the Thrift Savings Fund Statistics Report.

a. Monthly Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Ms. Wilder noted that, not surprisingly, the month of February had a
negative impact on overall balances. The Plan's total assets were $191.6 billion at the end of February and this reflects the down market during this month.

On the other hand, contributions to the TSP continue to hold and are looking strong. The Plan's participation rate is approximately 84 percent, and the good news is that participants are not stopping their contributions in response to activity in the market. This trend is also true for the uniformed services' participation rates. Overall, the participation rate for Active Duty members was 36.9 percent in February compared to 36.3 percent in January.

During the course of February, there was a press release from FINRA which is the organization that conducted the 2008 Military Financial Confidence Survey. One of the findings from the survey was that 68 percent of the uniformed service members who participate in the TSP have positive feelings about the TSP. However, the press release focused on the 22 percent of those surveyed who were not aware of the TSP. Ms. Wilder noted that she has spoken to FINRA, and FINRA is going to determine if it has sufficient data to analyze differences between Army, Navy, and the other branches. The survey also brought out the fact that the uniformed services rely heavily on the TSP and their senior officers for TSP information and education.

Mr. Sanchez noted that he recently met with a dozen mid-to-high ranking Army personnel and would estimate that, of the 12, 10 did not know about the TSP. He commented that he believes this issue is mostly with Army because he has met with other branches and they know about and support the TSP. Mr. Sanchez commented that he hopes the Army will do a better job of getting the word out about the TSP.

Chairman Saul noted that, among the uniformed services, the Army's participation rate is by far the lowest. In looking at Active Duty participation rates, 37 percent of the military is participating in the TSP, and the Army is at 27 percent. The total participation rate (Active and Reserve) for Army is 18.8 percent and the average for all services is 27.9 percent.

Mr. Long emphasized that the Army is occupied fighting two wars and that it is important to look at what the Agency and Board can control and do to get the message out. Recently, the Agency participated in Military Saves Week during which Ms.
Moran’s education team partnered with private sector groups to continue to emphasize the importance of military saving. Also, the weekly TSP news clips which Mr. Trabucco’s team circulates contain publications that reach the Army and uniformed services and discuss the TSP. Mr. Long noted that not everyone reads these publications, and the message does not always get through as not all members of the leadership are pushing the TSP as the Agency would prefer, but the senior leadership continues to work to improve the uniformed services’ participation in the TSP.

Mr. Sanchez acknowledged that Mr. Long and his team are doing a great job and noted that Navy, Air Force, Coast Guard, and others are participating well. Mr. Sanchez commented that there appears to be a challenge with the Army, and it does not seem the issue is tied to the Agency’s efforts as these efforts are paying off with other branches. Mr. Sanchez noted that the Board needs help from Army to get the word out. Chairman Saul also noted that, as far as uniformed services participation, it will be important to see what happens with the legislation such as the automatic enrollment provision.

b. Legislative Report

Mr. Trabucco commented that the Board’s legislative proposal to the 110th Congress recommending automatic enrollment and L Fund default investments for the TSP was amended and passed by the House but not the Senate. The bill died at the end of the 110th Congress. Bills including language similar to last year’s House bill have been reintroduced in the 111th Congress in the House. One bill is a new tobacco bill introduced by Congressman Waxman, and that is H.R. 1256. Another is a federal benefits bill introduced by Congressman Lynch and that is H.R. 1263.

The Waxman bill is scheduled for markup in the House Committee on Government Oversight and Reform on Wednesday. Mr. Trabucco has advised the Committee staff that, as Mr. Fink noted at the February meeting, the Board has not yet taken a position on the Roth feature or the mutual fund window provision that are in the House bills again this year.

The staff expects to present policy papers and recommendations to the Board members at the upcoming April meeting on these and other potential legislative items for the Board’s consideration.
Chairman Saul inquired about the next steps involving the legislative proposals. Mr. Trabucco noted that the Board started to develop the legislative proposal by speaking with the Employee Thrift Advisory Council on February 4th. Now the Board is taking into consideration the issues that Congress is raising and, in some ways, these issues reflect what the Advisory Council said.

For example, Mr. Trabucco noted he reported to the Board that the Advisory Council has become more tentative regarding the issue of L Fund default. Given the recent performance in the markets, there were a number of ETAC members who felt that, at least for the time being, the G Fund should continue to be the default fund. This issue has been taken aboard by Congress in this iteration of the TSP bill where Congress retained the G Fund as the default fund. Mr. Trabucco noted that Agency staff will include that consideration in a paper for the Board to consider as it develops the Agency’s policy recommendation. Ms. Wilder added that Agency staff are not drafting recommendations in response to the legislation but are developing the position of the Agency on these topics. Mr. Trabucco agreed and noted that the unions, Congress and the Board are each moving ahead and developing their own views on the legislation.

Chairman Saul noted that he does not believe that the Board should make recommendations to Congress without Chairman Sauber’s and ETAC’s approval. Mr. Trabucco agreed and noted that papers are being developed that will be sent to Board members in advance of the next Board meeting. At that time, these papers will be shared with the ETAC to show them that the Board has taken into account the issues they discussed at their meetings, generate any response from them and collect further input.

Chairman Saul suggested that the Board invite Chairman Sauber and a couple of his key lieutenants to come to the next Board meeting so that the Board and ETAC are united on the legislation. Mr. Long offered to extend the invitation. Mr. Fink believes that the Board should discuss the legislative proposals at the following meeting before meeting with ETAC.

Mr. Trabucco noted that the Committee is moving ahead on its schedule. The Board, likewise, will move ahead on its schedule. The Board likely will come out with its position along the same timeline it did two years ago and finalize its position in June. Chairman Saul suggested that Mr. Trabucco and
Mr. Long determine procedurally the best way to move forward with the legislation, including integrating ETAC, and recommend a position to the Board.

Mr. Trabucco reported that the Senate has not done anything with the bill yet, but Mr. Trabucco has talked to both sides and they have taken the position that they want to stand back and see how things go in the House. The staff director said that he wants to figure out where he can be helpful after the House acts which is a positive sign. Mr. Fink asked if the new Chairman of the House Oversight Committee was as anxious about the legislation as Congressman Waxman. Mr. Trabucco does not believe so - Congressman Waxman was the driving force. Congressman Waxman still has primary responsibility over the tobacco portion of the bill but not over the TSP portion of the bill. However, Congressman Lynch, who is the Chairman of the Subcommittee, did introduce a second piece of legislation so there are multiple prongs to this effort.

c. Investment Performance Review

Ms. Ray reviewed the March 6, 2009 memorandum (attached), entitled “February 2009 Performance Review - G, F, C, S, I, and L Funds.” In February, the small-mid cap fund underperformed the BGI Index by 43 basis points, and 101 basis points for the year-to-date. Recall that the Fund underperformed by 62 basis points in January. This was due to the fact that the Index contains limited partnerships but the BGI-managed fund does not because of the tax consequences of owning those limited partnerships. If adjusted for the limited partnerships, the February returns would have matched perfectly. The BGI Fund was down 8.2 and the Index, minus the limited partnerships, was down 8.2. That explains 62 basis points of the 101 basis points in the year-to-date number.

Of the 43 basis points for the month of February, 22 of that came from pipelines which are some of the limited partnerships that they are not permitted to own. The balance came from the Optimization Program. The Index is just over 4,000 names, but the Optimization Program buys about 2,700 and there are disparities between returns.

The International Fund that tracks the EAFE Index was on target for the month of February but minus 187 basis points year-to-date. This is due to a fair value adjustment on December 31st.
Ms. Ray noted that it remains expensive to trade in these volatile markets, and trading costs in the I Fund were 39 basis points in February. The trades are received at Barclays after the foreign markets are closed and overnight activity does affect trading of the Fund and caused the 39 basis points expense.

The G Fund is paying 2.875 percent for the month of March.

The returns for the TSP equity funds were down significantly. All of the stock funds were down over 10 percent. The good news is that this trend has reversed in the month of March. The C Fund is up 3.1 percent. The S Fund is up 2 percent. The I Fund is just slightly negative. Year-to-date, the C and S Funds through Friday are down over 15 percent and the I Fund is down 21 percent. All the funds, however, closely tracked the Barclays-managed funds.

In February, for the year-to-date, and since inception, all of the L Funds outperformed the TSP’s equity funds.

Ms. Ray mentioned that there was an article in Pensions and Investments regarding L Funds, and Congress also mentioned that it is going to look into L Funds, especially shorter-term funds. Ms. Ray’s presentation compared the TSP Funds to the funds highlighted in the Pensions and Investments article. Overall, the TSP and Vanguard are the two best performing. The TSP’s Income Fund was down 5 percent and Vanguard, the next best performing fund, was down almost 11 percent.

The TSP’s 2010 Fund was down 10 percent, and Vanguard, the next best, was down 20.7 percent. T. Rowe Price was down almost 28 percent. The disparities lessen across the 2020, 2030 and 2040 Funds. Across all funds, the TSP funds performed better than all other fund families. Ms. Ray explained that because of the TSP’s conservative tilt in its funds, it is not unexpected that its funds would perform better during a difficult market period. Mr. Long added that this conservative glide path is benefitting participants who are nearing retirement.

Two billion dollars was transferred into the G Fund during February. This was the largest volume transfer since October. So far in March, $1.8 billion has been
transferred into the G Fund. The number of participants with account balances in the L Funds fell during the month, and this is only the second time that this has happened. The first time was in November 2008. The allocations of account balances to the G Fund are at record highs—56 percent for FERS, 62 percent for CSRS and 53 percent for uniformed services.

On a vote taken by the Secretary before the meeting, the members closed the meeting at 10:24 a.m. for a discussion of proprietary information and personnel.

5. Closed Session.

At 10:53, 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 10:53 a.m.

MOTION: That this meeting be adjourned.

Thomas K. Emshiler
Secretary

Attachments

1. Thrift Savings Fund Statistics