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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 19, 2004

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 19, 2004, at 9:00 a.m., Eastern Daylight Time. The meeting was open to the public at the Board's offices at 1250 H Street, NW, Washington, D.C. 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); Gary A. Amelio, Executive Director; Elizabeth S. Woodruff, Secretary and General Counsel; David L. Black, Director, Accounting; Susan Smith, Acting Director, Administration; Lawrence E. Stiffler, Director, Automated Systems (by telephone); James B. Petrick, Director, Benefits & Investments; Thomas J. Trabucco, Director, External Affairs; and Pamela-Jeanne Moran, Deputy Director, External Affairs. Also in attendance were representatives of Deloitte & Touche, the Department of Labor, and the Government Accountability Office.

1. Approval of the minutes of the June 7, 2004, Board member meeting.

Mr. Saul entertained a motion for approval of the minutes of the open portion of the June 7, 2004, Board member meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the open portion of the Board member meeting held on June 7, 2004, be approved.

2. Review of Deloitte & Touche annual financial audit.

Melissa Krause, Larry Ishol, and Stephen Swirnow of Deloitte & Touche LLP presented the results of their firm's annual financial audit of the Thrift Savings Fund (the Fund), which covered calendar year 2003. Copies of the audit report and of Deloitte & Touche's presentation are attached to these minutes.

Ms. Krause explained that Deloitte & Touche reviewed the internal controls and regulatory compliance of the FRTIB, as well as two FRTIB contractors, the National Finance Center and the General Services Administration, and had issued an unqualified opinion that the Fund had fairly presented, in accordance with auditing standards generally accepted in the United States, its financial statements.

Mr. Saul questioned whether the audit covered Barclays Global Investors, another of the FRTIB's contractors. Ms. Krause explained that Deloitte did not perform an independent audit of Barclays but looked at Barclays' service auditor's report; in addition, she stated that they reviewed the audit report and audit work papers of Barclays prepared by KPMG for the Department of Labor.

3. Investment policy review.

By memorandum dated July 7, 2004, Mr. Amelio provided the Board members with a report on the performance of the G, C, F, S, and I Funds during the second quarter of 2004. At Mr. Amelio's request, James B. Petrick, Director, Benefits and Investments, briefed the Board members on the Funds' performance, in particular the tracking error in the I Fund in June 2004.

Mr. Petrick explained that the tracking error is a reporting discrepancy that will happen whenever the Board's investment manager, Barclays Global Investors (BGI), reprices its EAFE Equity Index Fund after the close of the foreign markets. This process, known as "fair valuation," occurs when there are large U.S. market or currency movements between the time the foreign markets close and 4:00 p.m., eastern time, when BGI's share prices are determined. Fair valuation ensures that traders cannot "market time" the I Fund by making investment decisions based on the "stale" prices, thus diluting the returns of other participants who invest in the I Fund. Because the EAFE uses the foreign market closing prices to calculate its values, its price change will differ from the TSP's on those days.

Mr. Petrick also explained that this reporting discrepancy was corrected the next trading day. However, since the next trading day was the first day of the next quarter, the correction was not reflected in this report. Mr. Fink questioned whether the reporting period should be changed to reflect this event. Mr. Petrick will monitor this activity to determine whether there is a need for a change to the report.

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 and shall review the performance of investments made for 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 of the Government Securities Investment Fund, the Common Stock Index Investment Fund, the Fixed Income 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 Common Stock Index Investment Fund, the Fixed Income Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

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

a. TSP statistics.

Mr. Amelio briefed the Board members on June's contribution rates and participation rates.

b. Implementation of loan program changes.

Mr. Amelio reviewed for the Board members participants' loan activity in June and the significant drop in loan activity for the first two weeks in July, after changes to the loan program were implemented. Pamela-Jeanne Moran, Deputy Director, External Affairs, discussed the impact the changes have had on the number of telephone calls received by the TSP and other work of the TSP's record keeper. The Board members praised the staff that were involved in implementing these changes.

c. Parallel call center.

Ms. Moran described for the Board members the introduction of the parallel call center and toll-free telephone number on July 1. Both were implemented with no problems. Due to the drop in the total number of calls coming into the call centers since July 1st, Ms. Moran anticipates that Spherix will handle about half of the calls by the end of September. Again, the Board members congratulated the staff on their work.

d. Mainframe.

Lawrence E. Stiffler, Director, Automated Systems, advised the Board members that by the end of the week all components of the new mainframe will be in place and that he expects all to be installed by the end of July. Mr. Stiffler expects to perform testing on the components during August and that the mainframe will be put in use during September. Use of the new mainframe will minimize current processing times for web applications and for the participant service representatives.

e. Web site.

Ms. Moran reviewed the changes that had been made to a number of areas of the TSP's web site, such as the addition of an index for articles published in the TSP's Highlights. She also described how the internet was being used to send electronic confirmations to participants who are making interfund transfers and withdrawals on the web. Ms. Moran also provided a preview of areas in which her staff is currently working, such as the redesign of the Plan's forms. Mr. Amelio emphasized the savings in mailing and printing costs that these efforts are providing.

Mr. Whiting inquired into the status of the Agency's efforts to procure competitively the TSP's printing requirements. Ms. Moran advised that while her staff was looking into this, she was also implementing new features to decrease the TSP's requirements for printing. As an example, she explained that in October the TSP would stop printing its Bulletins for agency representatives, referring them instead to the Bulletins on the TSP web site.

f. National Finance Center.

Mr. Amelio described the meeting held on July 8, 2004, with Tom Dorr and Patricia Healy, Department of Agriculture, and Jerry Lohfink, NFC, to discuss communication between the agencies. Mr. Amelio explained that his message to the NFC was that the Plan had and would continue to undergo significant changes in the way it accomplishes its work and that NFC needed to adapt to those changes.

He also explained that it was his goal to increase service levels while decreasing costs and that he expected the NFC to be a partner in that endeavor. Mr. Saul and Mr. Sanchez agreed that this was their expectation as well. David L. Black, Director, Accounting, stated that he and Mr. Stiffler had held a budget meeting with NFC personnel after the July 8 meeting and he believed that NFC was exploring ways to lower its estimated costs for the next fiscal year.

Mr. Whiting questioned whether the Agency had received an invoice from the NFC for work performed in fiscal year 2004 and Mr. Black responded that it had. Mr. Black explained that the NFC had submitted an invoice for almost one-half of its budget and that he did not anticipate that the NFC would exceed its budget for fiscal year 2004.

g. Lockbox.

Mr. Black described the status of his inquiries into the possibility that the Department of the Treasury could provide the TSP with lockbox services. Such services would increase the Plan's efficiency by allowing the immediate deposit of paper checks received by the TSP as loan repayments and rollovers. Mr. Black explained that the need for such a service surfaced when the TSP changed its business rules to permit participants to make loan payments with personal checks; this practice introduced the problem of how to handle payments that were rejected because of nonsufficient funds. Ms. Moran suggested

that this problem might be addressed with the changes to the loan program. However, everyone agreed that the Agency should pursue the possibility of obtaining lockbox services from the Treasury.

h. Board member training.

Mr. Amelio and the Board members discussed whether to hold fiduciary training in conjunction with the November Board meeting. After some discussion, it was agreed that, with the exception of Mr. Fink who will be out of the country, the training would be held following the meeting on November 15, 2004.

i. GAO audit.

Ms. Moran explained that the Government Acountability Office (GAO) had not yet completed its field work into the TSP's customer service-related activities. GAO began this audit after the new record keeping system was implemented in June 2003.

Thomas J. Trabucco, Director, External Affairs, explained that GAO was intending to compare the TSP's service levels with those of comparable 401(k) plans, which would be most useful to the TSP. Mr. Trabucco explained that the Senate Committee on Governmental Affairs had requested the review and that the Committee was expecting to issue a report in November 2004.

j. Legislation.

Mr. Trabucco reviewed with the Board members the status of the House and Senate bills that would eliminate TSP open seasons. The House bill has already passed the House committee and the Senate bill has passed the Senate. Although the bills differ in their scope, and thus in their cost, he is optimistic that legislation eliminating open seasons will be enacted into law this session.

k. Facilities upgrade.

Susan Smith, Acting Director, Administration, explained that the 4th Floor would be undergoing renovations beginning in September. The cost of the renovations would be borne by the landlord, inasmuch as the lease provided that a portion

of each lease payment would be set aside for improvements in the event that the Agency renewed its lease, which it did in 2002.

3. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting for discussions of procurement activities, internal personnel matters, and pending litigation. Present during the closed meeting were the Board members, Mr. Amelio, and Ms. Woodruff. Also present for the discussion of procurement activities were James Petrick and Susan Smith, and for the discussion of personnel matters, Susan Smith was present.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 2:00 p.m.

MOTION: That this meeting be adjourned.

Elizabeth S. Woodruff
Secretary

August 23, 2004

NOTE: Beta Court Reporting made a verbatim transcript of this meeting.