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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 20, 2009

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 20, 2009 at 9:04 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, Thomas A. Fink of Alaska, member; Alejandro M. Sanchez of Florida, member; 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 March 16, 2009 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the March 16, 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 March 16, 2009, be approved.

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

a. Participant Activity Report

Ms. Wilder then reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). March was a pretty good month, and the Fund's balance was $197.9 billion. The participation rate continues to hold under 85 percent, and the total number of TSP participants is 4,059,000. Ms. Wilder also noted that at the end of March, the Active Duty participation rate was 37 percent which is a new high. The loan and withdrawal rate for the first three months of the year is lower than 2008. Ms. Wilder attributes these low rates to the level of security that Federal employees enjoy.

b. Systems Modernization

Mr. Long noted that there have been positive developments over the last few weeks as far as the Agency's systems modernization and asked Mr. Hagerty to provide an update.

Chairman Saul emphasized the importance of the systems modernization project to the Board. This project is one that the Board approved approximately a year and a half ago, and the Agency is spending a tremendous amount of resources to bring the TSP system up to 21st century standards. He restated the Board's confidence in Mr. Hagerty and commended him for adding resources to his team. Chairman Saul commented that, because of the potential risk, he would like an update from Mr. Hagerty's group every other or every third meeting.

Mr. Hagerty reported that his group has accomplished to date what it set out to accomplish and, for the most part, within budget. The Agency is currently operating the mainframe workload in the new data center. The Agency is operating a loaner mainframe and plans to relocate the FRTIB-owned mainframe this weekend. The Agency still plans to complete its telecommunications upgrades. A great deal of effort has gone into establishing points of presence for the telecommunications equipment at all of the Agency's distributed locations such as the call centers, data centers and contractor locations. Over the next few months, the Agency will begin activating equipment, building redundant capabilities and conducting testing.

In addition, starting in May, Mr. Hagerty's group will start migrating the application workload over from the stand-alone servers to the virtual blade environment. In sum, Mr. Hagerty reported that his group is on track to finish the systems modernization project by September 30th and does not anticipate any additional expenditures or overages.

The original budget for the project was approximately $15 million over the course of three years. This amount was increased by $3-$4 million because of unexpected increases in storage costs and there were some offsets. Chairman Saul asked that Mr. Petrick report back to the Board at the next Board meeting regarding the exact costs associated with the systems modernization project. Chairman Saul stated that he would like to know what the original budget was, where the Agency saved money and what expenditures were added on. This request is timely as the Agency provides the Board with mid-year budget updates and was planning to provide the mid-year update at the May Board meeting.

Mr. Hagerty commented that his group has increased its staffing and, in particular, in the area of security. Mr. Hagerty commented that they hired Troy Poppe as the Chief Information Security Officer. Mr. Poppe has been with the Agency for approximately a year and a half and is doing an outstanding job. Mr. Hagerty noted that he would like things to move at a faster pace, and his group is going to work to make that happen. Mr. Hagerty's team is trying to finalize upwards of 27 or 28 policies and is also undertaking a major certification and accreditation activity. They will be actively recruiting to fill more positions and will also be putting additional staff in the operations area in support of the virtual operating system environment.

The systems modernization project should be wrapped up by September 30th. After September 30th, security will be a major area and Mr. Hagerty's

group will also be shifting its focus to Ms. Susan Smith's area regarding applications and updating the record-keeping system. Also, Ms. Smith and Mr. Roy Friend will be working on a test database. Ms. Smith anticipates that the second phase of this project will go into the next calendar year.

In closing, Mr. Hagerty feels that most of the major risks associated with the systems modernization plan have been managed well. The Agency will continue to use the old data center site until September, and the Agency's use will gradually decline each month. Mr. Long commended Mr. Hagerty's team and members of other teams who have been spending their weekends supporting the data center move.

c. Quarterly Investment Performance Report

Ms. Ray reviewed the April 3, 2009 memorandum (attached), entitled "March 2009 Performance Review - G, F, C, S, I, and L Funds." The tracking error for the month is on track except for the International Fund which has an 89 basis point tracking error which was due to the undoing of the fair value adjustment that occurred at the end of February. Year-to-date the International Fund has a 129 basis point tracking error and that is due to a fair valuation adjustment.

The small-mid cap funds had an 8 basis point positive tracking error for the month. Ms. Ray noted that the small-mid cap fund had significant tracking error for January and February and that this lower figure is a positive turnaround. Year-to-date, however, the fund still had a negative 104 basis point tracking error. This is due to the optimization method used by BGI.

The G Fund rate for April is 2.5 percent which is down from March.

Ms. Ray reported that there is finally positive news as far as the results for the TSP Funds. The market has continued rising since several large banks announced that they had been profitable in January and February. For March, the C, S, and I Funds were up 7 to 8 percent, and the F Fund was up for the first time this year.

Year-to-date, the funds through March were still negative but the rally has continued through April. In April, the C Fund is up 9.1 percent, the S Fund is up 12.6 percent and the I fund is up 9.9 percent. Year-to-date, the S Fund is also slightly positive for the year (up 0.8 percent), and the C Fund is down 2.8 percent. The I Fund is down 6.9 percent and most of that is due to the dollar strength as the dollar index is up 6 percent for the year.

The L Funds had a good month as expected when the stock market is up. Year-to-date as of the end of business on April 17, the L Income Fund is up 0.3 percent, the L 2010 Fund is down 0.1 percent, the L 2020 Fund is down 1.2 percent, the L 2030 Fund is down 1.6 percent, and the L 2040 Fund is down 2 percent. Since inception, all of the funds have outperformed the C, S, and I Funds.

Participants transferred $1.5 billion into the G Fund in March. These transfers occurred in the first few days of March when the market was making new lows. However, beginning March 13th, participants did start transferring money back out of the G Fund and into the equity funds. Participants still have over 50 percent of their account balances in the G Fund. Chairman Saul commented that participants have over 60 percent of their assets in fixed income funds and noted that the benefit of the 401(k) system is that people decide themselves where to put their money. Mr. Long commented that it is the Agency's responsibility to provide participants with the information to make well-informed decisions.

Ms. Ray noted that an independent audit showed no exceptions to BGI's proxy voting during the 4th quarter.

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.

Mr. Fink asked what RiskMetrics' voting rules are regarding the separation of duties of CEO and chairman, and Ms. Ray noted that she will look into this.

d. Legislative Report

Mr. Trabucco noted that two years ago, in June 2007, the Board was presented with a paper that included three recommendations from the staff regarding potential legislative proposals. This paper followed the Pension Protection Act (PPA) of 2006 which made several changes in private sector plans. The three initiatives which were presented to the Board were automatic enrollment, which had been sanctioned under the PPA, L Fund default, which had also been sanctioned by the PPA and, finally, the potential addition of a Roth feature which had been made permanent under the PPA. On the first two proposals, Agency staff recommended, and the Board approved, policies seeking legislation to authorize automatic enrollment and L Fund default. Since the Roth feature was relatively new and a major potential change for the TSP, the Agency felt that it needed more information and the Board agreed.

The Board went forward with a legislative proposal to Congress in July 2007 seeking authority for automatic enrollment and L Fund default. The proposal was subsequently introduced with amendments in the House. The amendments included a Roth feature as well as a self-directed investment, or what the Agency calls a mutual fund window. The legislation moved through the House in July of last year but was never considered by the Senate as it was an election year and there was a significant amount of activity.

At the beginning of the 111th Congress, Mr. Trabucco touched base with the leaders in the House who had moved the legislation. In a new Congress, legislation has to start at the beginning of the legislative process, and there were also changes in the leadership. Congressman Waxman was moving from the House Committee on Oversight and Government Reform to the Committee on Energy and Commerce and it was unclear who was going to be the head of the Committee on Oversight and Government Reform. The Agency, therefore, went ahead with its process. Ms. Wilder conducted the participant survey and the Agency met with the Employee Thrift Advisory Council (ETAC) on February 4th to discuss potential legislative issues for the 111th Congress.

After the February meeting with ETAC, the Congressional leadership was resolved and the House passed a largely unchanged version of last year's legislation. On April 2nd, this legislation was sent over to the Senate. Subsequently, Agency staff and members of the Senate committees who are responsible for the legislation had a very good meeting. Mr. Trabucco noted that the TSP provisions were joined with the tobacco legislation in large part because of the salutary budgetary effect of the Roth feature. Specifically, because the Roth contributions are after tax, this provision brings income into the Treasury sooner than income from contributions made to the TSP. The Roth frees up $2.3 billion in the budget. In short, the legislation that passed the House was very well received.

The legislation that passed the House includes automatic enrollment as well as immediate employer contributions. However, based on concerns

raised by ETAC, the Agency is no longer pushing for the L Fund default feature, and, in fact, the House did not include it in its legislation this year because of the concerns raised by the unions.

The Agency informed Congress that the Board would be meeting to discuss its position regarding the Roth and mutual fund window features. The Agency is also talking to the Senate about two other issues regarding granting the Agency administrative subpoena authority in order to assist the Agency in investigating fraud as well clarification regarding the TSP's anti-alienation provisions in the context of the Mandatory Victims Restitution Act.

Mr. Trabucco explained that he has informed the Senate that the Board is scheduled to vote today. Though the ETAC meeting is scheduled for Wednesday, April 22nd, which is after the Board meeting, Mr. Trabucco noted that the Agency has discussed these issues with them and feels good about its position. He also noted that the Agency will keep the Board apprised of any concerns raised by ETAC. Chairman Saul noted that he does not believe that the Board should make any recommendations without the approval of ETAC's Chairman, James Sauber, and the other ETAC members. Mr. Fink disagreed and noted that, while he would like to know ETAC's position on the legislative proposals, he does not believe that ETAC should have to sign-off and agree with the Board.

Mr. Long intends to have Ms. Wilder review in detail for the Board the Roth feature and mutual fund window as well as spousal accounts which were not previously mentioned.

As far as timing and when Mr. Trabucco would like to have the Board's recommendations on the legislation, Mr. Trabucco noted that nothing is scheduled in the Senate yet, but he would like the Board's views sooner rather than later. The Agency will have ETAC's view on Wednesday, and Mr. Trabucco does not expect any major differences of opinion though ETAC has raised some questions regarding the mutual fund window. For example, ETAC has asked what percentage of an individual's account will pass through the window. Mr. Trabucco noted that, by regulation, the Agency can control the account balance percentage that can pass through the mutual fund window.

3. Recommendations on Potential Legislative Initiatives.

Ms. Wilder then explained the spousal account proposal. This proposal will allow spousal beneficiaries to maintain an account with the TSP. Currently, spousal beneficiaries have a 60-day window in which to decide whether to transfer their money to an IRA or to take the money in cash. Ms. Wilder noted that the TSP is an attractive investment option with a favorable fee structure that spousal beneficiaries cannot replicate elsewhere. Last June when the Board held a joint meeting with ETAC, the Board members supported this proposal but an official vote was not taken. The goal of the spousal account proposal is to permit spousal beneficiaries to stay in the Plan until

they must withdraw their account at age 70 and 1/2. The spousal account proposal was not in the House version of the legislation but was mentioned in the draft legislation that the Agency is recommending to the Senate.

Chairman Saul stated that he would like the Board to have a formal resolution on each of the proposed legislative amendments. By discussing the proposals one at a time, everyone is clear what the Board is recommending, and Mr. Trabucco can easily communicate the Board's position to the Senate and ETAC.

Mr. Fink noted that he did not see a problem with the spousal amendment because it was a no cost amendment and a benefit to the spouses. However, he noted that he was not necessarily going to agree with the other proposals.

After this discussion, the members made, seconded, and adopted the following resolution by unanimous vote:

RESOLUTION

That the Board seek legislation permitting the spouse of a deceased TSP participant to maintain an inherited TSP account.

Ms. Wilder then discussed the April 10, 2009 memorandum (attached), entitled "Recommendations for Roth and Mutual Fund Window Accounts." Mr. Long noted that the Agency is recommending two substantial changes which include the addition of a Roth option and the addition of a mutual fund window. As these additions are investment-related, they are the Board's decision to make. Ms. Wilder then discussed the Roth feature. The Roth 401(k) is very similar to the Roth IRA with some differences. One difference is that the Roth is an employer-sponsored payroll deducted option. It is, as with an IRA, an after-tax contribution but not subject to the income limits that Roth IRAs are subject to. However, the Roth 401(k) is subject to the deferral limits. Therefore, participants can elect to make a traditional pretax contribution and/or contribute to the Roth 401(k) TSP feature.

Ms. Wilder noted that Mr. Long had conducted some research into the Roth feature several years back and, at that time, the decision was not to move forward until the Agency had additional information. In 2006 the Roth feature became permanent but many employers held off on implementation until they knew the Roth feature was permanent. More recently, a number of corporate plans have started to offer the Roth. For example, SunGuard, the company which provides the Agency's record keeping solution, Omni, has moved to incorporate the Roth feature into its software.

The Agency's participants have also indicated that the Roth feature is attractive. The Agency conducted the 2008 participant survey and 56 percent of respondents indicated that they thought that the Roth feature would be a benefit if

added to the Plan. Of note, 63 percent of uniformed services respondents responded favorably.

Ms. Wilder acknowledged that offering the Roth feature, however, requires participants to make not just an investment decision, but also a tax decision and it will add some complexity to the Plan. Participants who indicated that they would be interested in the Roth feature have also indicated a desire for tax advisory services. The Agency has not yet conducted an RFI or secured detailed information regarding the education/advisory element of the feature but there are several options including incorporating representatives into the call center or online tools like various wizards or calculators. The Agency has not finalized the structure of the education component but, because in the survey participants demonstrated a lack of understanding of the Roth feature, it may be appropriate to have additional education if the Agency adds the Roth feature.

Ms. Wilder also commented that the impact of the change on the Agency's systems and communications will be significant. Adding this feature is not a simple undertaking and touches every system that the Agency has including the accounting and recordkeeping system. Even though the implementation process will be less rigorous than it would have been several years ago, it is still a major undertaking to add the Roth to the TSP. It is also a major undertaking for the agencies as their payroll systems have to be adjusted and reprogrammed to accommodate this after-tax savings vehicle. Agencies have indicated that it would take them approximately one or two years to get their systems onboard.

The Agency estimates that implementation will be no earlier than 2011 and at a cost of approximately $1.3 million. This cost does not include the cost of communications which may be $5 million.

Mr. Long explained that the advisory component of the Roth feature could be a toll-free number. He noted that currently the call centers are not equipped to answer whether the Roth or the TSP is the right move for a participant. Mr. Sanchez asked whether such a conversation would also include advising participants regarding which fund to invest in. Mr. Long noted that the Agency is still looking into this but that if the Agency is going to broaden its services then it must do so on a large scale. Mr. Sanchez questioned whether the Agency should go down the road of advice. Mr. Whiting also suggested that such advice is outside the Agency's mandate as education rests with either the individual agencies or OPM.

Ms. Moran commented that the Roth feature would likely result in more than education and is one of the reasons why the Agency is looking at alternatives in terms of offering self-service advice like calculators and DVDs that walk people through various scenarios. Mr. Trabucco also added that the statute does state that OPM shall set-up a program for agencies to educate people in financial literacy but, similar to the TSP loan program, this feature would be one internal to the TSP, and, therefore, the Agency would have a responsibility to explain to participants the potential pros and

cons. The Agency has some responsibilities under financial literacy and files an annual report with Congress detailing the steps it has taken with regard to financial literacy.

Mr. Whiting noted that he believes that education may be the wrong word and ultimately it comes down to individual advice. Mr. Long stated that if the Board shows its intent to move forward with the Roth feature, then the Agency must determine the best educational service and come back to the Board with its recommendations. However, before going down this road, the Agency must know whether the Board supports the Roth feature.

Mr. Sanchez drew the distinction between financial literacy and financial advice. Giving participants financial advice, for example regarding which fund to invest in, would be a new frontier for the Agency. Mr. Long agreed and noted that the Agency will determine the scope of the education program upon knowing whether the Agency will pursue the Roth feature. Mr. Whiting stated that it may not be possible to provide advice in this area without knowing details about the employees' background such as their other investments.

Mr. Long stated that there are several reasons why the Agency is making its recommendation. Several years ago there was a question whether Roth was here to stay and now it is evident that Roth is here to stay. Also, the benefits of the Roth feature are real at both the higher and lower ends of the income spectrum. With the uniformed services, this is a game changer. If you are a 20 year old member of the uniformed services and make $22,000 a year, the benefit from a pre-tax, TSP contribution is effectively nil because you are not paying Federal tax. The Roth, which is post-tax money, allows them to grow and withdraw the money tax-free. This feature is also attractive for judges because their income does not decrease during retirement. Mr. Long stated that, while there is work to be done to determine how to educate participants, if, five years from the now, the Plan does not have a Roth feature, it will be difficult to make the case that the Plan is still best in class.

Chairman Saul stated that, because of the magnitude of changes required, the Board's recommendation on Roth should make very clear that the feature will be implemented on a timetable that is set by the Board. It is very important to the Board that the Agency be granted a great degree of flexibility and that the implementation timetable should be determined by the Executive Director. Mr. Emswiler commented that legislation typically specifies that the Executive Director will implement via regulation. Mr. Emswiler then proposed the following motion:

RESOLUTION

> That the Board seek legislation permitting the Executive Director to add a Roth 401(k) feature to the TSP on a timeline as specified by the Executive Director.

Mr. Fink asked whether the Roth feature would require setting-up a duplicate system and stated that the survey demonstrated that half of respondents did

not realize that there is a benefit in having a Roth feature if their income is higher when they retire. Very few participants are going to use this feature, and Mr. Fink believes the cost is going to be very high. Mr. Long commented that, while the Agency will be required to track two separate streams of money, the system is already built to do that. Mr. Long also noted that he has heard that members of the uniformed services will use this feature, and, while the Agency will not have usage information until the feature is implemented, adding the Roth feature will increase the level of support from the senior leadership of the uniformed services, and this support has been lacking in the past.

Mr. Fink stated that in order to do a decent job of providing participants with education regarding the Roth feature, it will be necessary to look at all of their assets and liabilities and give participants personal tax and investment advice. Not only is this service expensive, but the Agency exposes itself to the possibility of getting sued. Chairman Saul agreed and stressed that the Agency has to be very careful and include disclaimers regarding contacting a CPA or other professional for advice.

Mr. Long stated that the Agency does not have to provide this advice, and, in fact, most plans do not. Mr. Sanchez asked that Mr. Long clarify whether education means education in the traditional TSP sense or in a deeper sense. Mr. Long stated that the intent is to determine the Board's position on whether it wants the Roth feature and then start the process of implementation as well as research into learning the best way to educate. The Agency will come back to the Board before moving forward with any communication/advice scheme.

Mr. Sanchez stated that he is not sure that he is comfortable voting on the Roth feature without knowing the education/financial advice recommendation. Chairman Saul agreed and stated that the policy of the Board is to provide participants with education but not personal advice. Mr. Fink again noted that the survey demonstrated that participants do not understand the Roth feature. Chairman Saul noted that that is true regarding any financial subject and participants have to go to their advisors. The Agency can provide participants with the pros and cons, but when it comes to their personal situation, they must seek their own advice. Mr. Trabucco noted that the plan faced a similar education hurdle when it first started and participants did not understand the notion of a 401(k) plan. The Agency has to be authorized to go forward with a topic before it can dig in and find out what the industry has to offer and what may fit with the TSP.

Mr. Fink is in favor of a report to Congress which states that the Board is neutral on the Roth feature, provides the proposal's pros and cons and says that this is a policy decision for Congress. Chairman Saul stated that he believes the Board must come up with a recommendation on the Roth feature. Based on the Board's discussions, Mr. Emswiler then proposed that the Board integrate a provision in the resolution which states that the Agency will maintain its policy of providing education, not advice, to participants.

Mr. Whiting noted that Mr. Long may decide that in order to provide the Roth feature that the Agency must provide individual advice and charge for that advice like the Agency charges for loans. Chairman Saul disagreed and stated that the policy of the Agency has been to educate, not advise, participants. Similar to how the Agency explained the concept of a 401(k), the Agency can explain what the Roth feature is and tell participants they are on their own regarding personal decisions. Mr. Whiting then stated that part of the reason that the Agency created the Lifecycle funds was because participants did not have access to advice and were not capable of making allocation decisions themselves. The Board identified the need and filled it with the Lifecycle funds which are run by a consultant who makes those decisions for participants. Chairman Saul felt that the Agency only told participants what was involved but did not make decisions for them.

Mr. Long noted that he will not move forward with the education/advice component without coming back to the Board, and if the Agency decides to not provide advice then it is in the same position as most other Roth-providing plans. After this discussion, the members made, seconded, and adopted the following resolution by a 3:1 vote in which Chairman Saul, Mr. Sanchez and Mr. Whiting voted in favor and Mr. Fink voted against:

RESOLUTION

> That the Board seek legislation permitting the Executive Director to add a Roth 401(k) feature to the TSP on a timeline as specified by the Executive Director, and if such legislation is enacted, that the Agency maintain its policy of providing education, not advice, to participants.

After a brief recess, Ms. Wilder commenced a discussion of the mutual fund window proposal. Findings from the 2006 and most recent participant survey indicate that participants are interested in accessing a wider range of investment options within the TSP. Ms. Wilder discussed an illustration of the mutual fund window (attached). There are the core TSP options which are the five investment options and the L Funds. The mutual fund proposal would add another investment option.

There are several varieties of such windows and this window would only allow participants to access mutual funds. For those participants who want to invest in the broader range of funds, they would direct funds through that window. When the funds go through the window, on the other side, they will go into a money market fund at the mutual fund platform provider. The participant then has to go over to the platform and to the provider of this window and direct those funds from the money market fund and into the mutual funds that they want to invest in. Any individual who would seek to use the mutual fund window will have to pay for it. The window provider will have fees for accessing this account and there are also transactional fees associated with account trades. Additionally, the cost to the TSP for setting-up and maintaining this account will be charged to the balances of those who use the service. The balance of the mutual fund investment will be reported in a dollar amount on participant statements.

Mr. Whiting suggested that the Agency should open up the window to more than just mutual funds. Mr. Long stated that he did not want to create an intra-day trading psyche in a long-term retirement plan. The Agency is providing access to the mutual fund window not because participants can trade thousands of mutual funds but because it allows participants to access a particular fund such as a REIT fund or a gold fund. Ms. Wilder noted that one of the principal drivers behind the mutual fund window is that it addresses the pressure the Agency receives in terms of adding new funds to the core. This window allows participants to access, for example, socially-responsible funds, minority managers and sector funds. While the Agency has been successful in the past in protecting its core funds, Ms. Wilder expressed doubt that the Agency will be able to do so in the future.

Mr. Whiting asked how many people have requested the addition of a specific sector fund versus how many people have expressed an interest in wanting to participate in intra-day trading. Mr. Trabucco commented on the number of organized efforts over the years. In the late 90s, there was an effort to have a dot.com fund and more recently there was the REIT effort which went on for four years. Where there is an organized interest in Washington that seeks to have a fund added to the TSP, it goes to Congress because advocates think it is a good fund and want it available to participants and also because they seek the government seal of approval. The Agency has had both industry-driven requests and participant-driven requests for fund additions. Mr. Whiting again expressed his support of a fully open window that allows intra-day trading.

Mr. Sanchez mentioned that the survey data states that only ten percent of respondents would be willing to pay an annual fee of $100 to use the mutual fund window. Ms. Wilder noted that the fee would be lower but also acknowledged that utilization rates would likely be low. In other plans, such a window is used by the more sophisticated investor and those making higher incomes. However, Ms. Wilder emphasized that, regardless of usage, such an option allows the Agency to respond to those interested in a particular fund and to protect the Plan's simplicity. Research suggests that when plans add funds, they freeze participants' ability to make decisions and participation rates go down. In addition, such additions impact the cost of running the plan. Providing this window does not add a lot of complexity or cost to the Plan and it does not impact those individuals who elect not to use this option.

Mr. Long also noted that just because an argument comes from a small percentage of participants it is not necessarily without merit. Unless we make changes, pressure from such group will continue forever. At some point, the Agency will lose the argument that the Plan should maintain its simplicity. Addressing these pressures through a mutual fund window option changes the discussion and still protects the core TSP structure.

Chairman Saul commented that if a participant wants to set up a mutual fund or an IRA then they can do this without the Agency. Depending on your income level and age, there are, however, restrictions relating to setting-up an IRA. Chairman

Saul noted that he does not agree with implementing the mutual fund window. The Plan's success has been its simplicity. The Plan has also been free of politics. Just because people are pressuring you to change a great product does not mean that you have to. Chairman Saul noted that he does not think that the Plan should be changed and the Plan should not add a mutual fund window.

Mr. Whiting stated that he feels that adding the mutual fund window depoliticizes the Plan since participants will have access to various funds. The Board and Agency felt that adding a REIT fund would have disrupted the Plan but the Board and Agency could have lost that argument and had no choice but to add a REIT fund. Mr. Whiting stated that he was unsure whether he supported the proposal but he felt that adding this window could potentially protect the core's structure.

Mr. Sanchez suggested that participants can reduce their monthly contributions to the TSP and find alternative investments in the marketplace. Mr. Long stated that such an investment would be more expensive, would not be deducted from a participant's paycheck, would be not tax-deferred and may not be matched. Mr. Whiting stated that a participant could place his/her money in an IRA and have IRA contributions automatically deducted from his/her paycheck.

Ms. Ray commented that a reason to support the mutual fund window is because this current Board, which is supportive of the Plan's simplicity, will not always be composed of the same members. The next Board may be comprised of members who feel differently.

Chairman Saul stated that this proposal will not end the discussions regarding adding funds to the Plan, and, further, mutual funds have not performed well and are expensive. Mr. Long feels this window will end these discussions as fund-specific usage data will prove whether a fund should or should not be added to the core. The cost of implementing the window is over $1 million.

Mr. Trabucco gave a recent example in which mentioning the possibility of the mutual fund window eased the concerns of a staffer who felt that, because of a proposal from Congressman Ron Paul, the Agency's legislation would have to include a gold fund amendment. Mr. Trabucco also stated that the addition of this window would depoliticize many conversations as there are many members of Congress who support specific funds. Mr. Sanchez stated that there are a lot of bills filed in Congress that do not go anywhere. Mr. Sanchez questioned whether this proposal was in response to the best interest of the participants and beneficiaries or because Congress has filed a bill.

Mr. Trabucco noted that at the high point of the REIT legislation, 214 members supported the bill and stated that approximately 40 percent, and sometimes close to 100 percent, of his time is spent responding to the Congressional proposals. The Agency has spent a fair amount of resources over an extended period of time defending these claims. Mr. Long stated that eventually the Agency may not be able to defend itself against a proposal from Congress to add a particular fund and that is not in

the best interest of the participants. If the Agency allows in one, it opens itself up to the next one and the next one.

Chairman Saul suggested that the Agency put a low limit on the amount that any one participant can put into the mutual fund window. Mr. Whiting and Mr. Sanchez feel that if the Plan is going to add a window then it should not restrict the amount. Mr. Whiting also commented that the Agency should permit participants to trade stocks via the window. ETAC is generally, but not universally, supportive of the mutual fund window.

Mr. Long commented that Ennis Knupp and other consultants generally view the combination of core funds, life cycle funds and a mutual fund window/brokerage account as the ideal structure. Ms. Ray clarified that the thousands of funds available to participants via the window would be outside the fund and not complicate the Plan.

Mr. Sanchez expressed his belief that adding the mutual fund window would radically change the TSP. Mr. Whiting asked the members of senior staff to express their view on the addition of the window. Ms. Moran stated that she believes the mutual fund window is a way of keeping the Plan simple in the long-term. She feels that the window will act as a release valve as far as relieving the Agency from the pressures regarding adding new funds. One or two percent of four million is not a small number of people who would potentially use this feature. The mutual fund window gives the Plan the ability to answer the needs of this group and is much simpler than adding a new fund. Ms. Moran also noted that even though bills get introduced and do not pass, they do not pass because the Agency comes up with very good reasons why the bills do not make sense. These responses are a drain on staff. The triangle model, the core funds, the life cycle funds and the mutual fund window, is a good structure.

Mr. Trabucco, Ms. Wilder, Ms. Ray, and Mr. Hagerty support the window. Mr. Whiting suggested a contribution limit be determined by the Executive Director and be part of the regulations but not part of the legislation. A limit was also a concern raised by ETAC.

Mr. Petrick does not support the window because he feels that the Agency has a fiduciary responsibility to the people who use the window as well as those who do not. The Agency has a fiduciary responsibility to consider the fact that users of the window may make foolish investment decisions.

Mr. Emswiler noted that the Board should take a position on the proposal that is currently before Congress which references a self-directed investment option. Mr. Trabucco commented that, though the legislation leaves establishing a mutual fund window to the discretion of the Board, the Agency has serious concerns with the language in the House-approved version. Specifically, the legislation states that the Agency is to conduct due diligence on each of the funds available through the mutual fund window. As raised by ETAC, the problem with this structure is that the lobbying would simply go to the Board or to the Agency so that these various funds could gain

entry. Chairman Saul stated the Board was against this model and supported the Agency hiring, through competitive bidding, a provider who then decided what funds to include.

After this discussion, the members made, seconded, and failed to adopt the following resolution by a 2:2 vote in which Chairman Saul and Mr. Whiting voted in favor and Mr. Fink and Mr. Sanchez voted against:

RESOLUTION

> That the Board seek legislation authorizing an investment option whereby a participant can invest an amount specified by the Executive Director in mutual funds, and that it do so by recommending appropriate amendments to the self-directed investment proposal that is currently before Congress.

Chairman Saul noted that he had mixed feelings about this proposal and that it may be possible for the Board to change its mind. Chairman Saul requested that Mr. Long report back to the Board regarding ETAC's feedback on these proposals.

Mr. Emswiler then discussed the Agency's proposal regarding administrative subpoena power. The Agency is seeking the authority to issue administrative subpoenas that would allow the Agency to compel, for example, a financial institution to disclose account information. If, for example, the Agency has an incident of fraud and money has been wrongfully taken out of the TSP and paid to another bank account, banks are often reluctant to give up personal information. If the Agency had administrative subpoena authority, it could issue a subpoena to the bank and then the bank would have to tell the Agency who the account belonged to and aid the Agency in its investigation. This administrative subpoena authority is very common throughout the Federal government.

Principally this proposal is one seeking documents from financial institutions. The Agency will have to issue regulations regarding the details of this process. It is possible that banks could challenge the subpoena in court but Mr. Emswiler believes most banks will honor an administrative subpoena.

After this discussion, the members made, seconded, and adopted the following resolution by unanimous vote:

RESOLUTION

> That the Board seek legislation granting the Executive Director administrative subpoena authority.

Mr. Trabucco then discussed the Agency's proposal for clarification from Congress regarding whether the Department of Justice's Mandatory Victims Restitution

Act applies to the Agency. From its inception, the TSP has had a very high barrier to allowing incursions into the fund. The TSP was viewed as a trust and, even more so than Social Security and private sector plans, constructed to be inalienable. The concept was that in order to get people comfortable with putting their money into the TSP, government agencies would not be allowed to get access to the fund in order, for example, to settle a dispute with a taxpayer or settle debts in bankruptcy. The Agency has stood by this high alienation barrier.

Even when Aldrich Ames was convicted of espionage and there was an effort to retroactively authorize taking money out of his TSP account, the Agency resisted this effort. In response to the Ames case, Congress changed the law and made it forward-looking. Mr. Fink commented that normally a person's assets are subject to any judgment and the Agency is making the TSP judgment-proof. Mr. Trabucco noted that, by and large, the TSP is judgment-proof. For example, the Agency has an effort from the IRS to collect taxes via levy on the TSP and the Agency has said no.

The Agency is looking for clarification from Congress regarding the Mandatory Victims Restitution Act (MVRA). Justice is urging the Agency to comply with MVRA. The Agency has been resisting this effort because it has been looking at its obligation to the participants and beneficiaries but if Congress meant for the MVRA's application to be universal, then the Agency will comply. The Agency is really just looking for clarification from Congress.

Mr. Emswiler further explained that the Agency's statute has a section, 5 U.S.C. § 8437, that says that amounts in the TSP are not subject to alienation and cannot be levied or garnished unless specified in the statute. The Department of Justice has another statute called the Mandatory Victims Restitution Act which says that unless excluded, Justice can reach the asset by way of a court order when a person is convicted of a certain offense so that the victim can be made whole. Justice is coming to the Agency and telling the Agency that its law trumps the Agency's law. Mr. Long added that because of this conflict, the Agency seeks guidance from Congress regarding its intent. Mr. Fink expressed that he is opposed to making exemptions from judgments. The Board is not taking a position on whether it favors exemption for the TSP but simply seeking clarification.

After this discussion, the members made, seconded, and adopted the following resolution by unanimous vote:

RESOLUTION

> That the Board seek clarification from Congress on whether its intent is that the Mandatory Victims Restitution Act applies to the TSP, and, if yes, that Congress codify that intent in FERSA.

4. Annual Financial Audit Report.

After a brief recess, Mr. Petrick welcomed the Agency's auditor, Clifton Gunderson. Mr. Petrick also acknowledged Ms. Susan Crowder and Ms. Anne Beemer who facilitated this year's audit and did a great job. Mr. Petrick thanked Ms. Crowder and Ms. Beemer for their assistance.

Mr. Petrick then introduced Ms. Marie Caputo who is the Engagement Partner for Clifton Gunderson and is in charge of the Agency's auditing engagement. Ms. Caputo then discussed the April 20, 2009 presentation (attached), entitled "Federal Retirement Thrift Investment Board – Thrift Savings Fund." Ms. Caputo introduced the Clifton Gunderson team which includes Mr. Bill Oliver who is the Unassociated or Quality Control Partner and Mr. Bob Halpin who is a Senior Manager and worked on the IT portion of the audit.

The scope of the 2008 audit of the financial statements was done in accordance with U.S. Generally Accepted Auditing Standards. The Clifton Gunderson team selectively tested transactions, processes and controls but did not do an audit of the internal control environment. The team did consider the internal control environment but it did not issue and was not engaged to issue an audit opinion on internal controls. In the auditor's report, the team provided an unqualified or clean opinion which is the highest level of assurance which it can provide regarding the financial statement process. The other document which the Clifton Gunderson team issued as part of the audit process is a Management Letter or SAS-112 report as it is sometimes referred to. That report provides commentary on the team's observations over the internal control process underlying the organization's financial reporting.

As a result of the audit testing, Clifton Gunderson did not identify any material weaknesses which are the most severe type of internal control issue. On a less severe scale, the team did identify one significant deficiency which related to information technology and security programs. The team felt that this matter had an elevated risk when compared to other matters. Defining risks includes considering the likelihood that a particular error could occur in the financial statements and the potential magnitude of the error. The deficiency reported was not a material weakness.

Mr. Fink asked how the current systems modernization impacted the audit finding. Mr. Long noted that the Agency responded to the audit findings in its management letter which was provided to members of the Board. Mr. Hagerty also commented that the Agency agrees with the recommendations regarding certification and accreditation, however, these processes are rigorous and require a good deal of investment. Mr. Long noted that the Agency has dedicated resources to address the audit finding and will do so once the Agency completes the modernization effort.

Mr. Hagerty noted that the certification and accreditation process should be a 24-month process. Mr. Hagerty's group is looking to promulgate approximately 28 new policies. It is also important that the Agency do this work while keeping expenses reasonable. Certification and accreditation are not trivial tasks and require a specific

skill set. At some point the Agency may want to pull in outside help. This is the right thing to do but it is not a trivial undertaking.

Ms. Caputo also commented on other findings relating to IT policies and procedures, background investigations, configuration management, the change control policies, systems development, life cycle methodology and access control. These findings do not meet the definition of a significant internal control deficiency. The other areas outside of IT which were identified and reported on are disclosures relating to FASB Statement Number 157 which was not reported in the Agency's interim statement for June 30, 2008. The disclosures are now up to standard. The other two items related to this recommendation relate to SAS-70 reports and a recommendation that the Agency add something into the structure of its risk assessment work under OMB A-123. In reference to a footnote in the audit report which evaluates the Agency's risk relating to securities lending, Mr. Fink expressed that the Agency should make sure its reports regarding security lending are up-to-date.

Mr. Long noted that the audit process involved open communication and that the Agency and Clifton Gunderson worked well together. Ms. Caputo acknowledged the Agency's cooperation. Chairman Saul stated that if Ms. Caputo and her team feel they need to get in touch with the Board that they are free to do so at any time. Ms. Caputo ended her discussion by mentioning the change in the disclosures relating to investments, the FAS-157. There were significant portions of the investments that did not have direct, quotable market prices for identical assets in an active market but there were observable inputs which the auditors were able to use during their testing.

Mr. Petrick noted that the premium for the Agency's fiduciary insurance has decreased for the last year or two and that the amount it has available to purchase insurance is invested in the G Fund.

5. Quarterly Vendor Financial Report.

Mr. Petrick reviewed the April 10, 2009 memorandum (attached), entitled "Quarterly Financial Assessment of TSP's Primary Vendors – April 2009." Serco Group purchased SI International so the Agency is now tracking Serco's financial statements. The overall characterization of Serco is that it is in very stable financial condition. The company has a strong balance sheet. It increased its cash in 2008 and did have a large increase in its goodwill number which represents the purchase of SI International.

The big news with Barclays is its sale of I-Shares which caused it to realize three billion pounds. The sale of I-Shares will improve its Tier I ratio to 10.3 percent and that is considered appropriate by the UK financial authorities. Mr. Petrick noted that Barclays has not taken money from the UK government. Barclays was profitable in 2008, although its income was down. Barclays did receive some benefit from its acquisition of Lehman Brothers.

Mr. Petrick noted that Switch & Data swung to a loss of $7 million in 2008 and a lot of this was due to the interest expenses under its loans. The company converted from a variable rate to a fixed rate and this caused a number of losses in 2008. The company also increased its expenses. For example, it rolled out new data centers including the one that the Agency is using in Northern Virginia. The Agency did speak to them about their financial situation and they did admit that some businesses have been down but they do continue to pursue their expansion plans. They still feel that they are on track to be profitable in the future. Switch & Data continues to effectively operate the data centers and the Agency has no concern. Mr. Petrick stated that there is a concern with all small companies whether they will continue to get financing to pursue their growth opportunities. Chairman Saul commented that even large banks have plenty of skeptical assets and should be monitored.

Mr. Petrick then introduced Ms. Stella Lane who joined his staff and has been instrumental in putting together the Agency's financials.

Chairman Saul commented that it is important for the Agency to have a senior person visit the cell centers and other sites to report any potential problems. Mr. Petrick stated that when researching the Agency's vendors' financial status, the Agency calls the smaller companies. The Agency talks to Switch & Data and Active Network on a regular basis. For the larger companies, the Agency relies on public information and will call them if it has any concerns. Ms. Ray speaks to Barclays quite often and Mr. Hagerty talks to Serco on a regular basis.

Ms. Ray commented that the I-Shares sale benefitted Barclays because the company is getting the cash and that is good news for the Agency. Barclays is still going to run I-Shares but with a different equity owner. Barclays had one change in key personnel but the Agency was satisfied with the replacement.

Mr. Petrick reported that R.R. Donnelley & Sons, the Agency's printing provider, reported a loss of $190 million. This is not typical as the company has been profitable over the years. This loss was due to a write-off of goodwill due to restructuring. There were also employee termination costs which added to the costs of the write-off. Mr. Petrick noted that the company still has a significant amount of capacity, and Ms. Moran monitors the Agency's relationship on an ongoing basis. Despite the losses, the Agency does not have any real concerns with R.R. Donnelley.

Mr. Petrick reported that on April 14th, MetLife announced that it elected not to participant in the Treasury's Capital Purchase Program, similar to the TARP. This decision is a reflection of MetLife's strong position in the industry. MetLife is still the largest U.S. life insurance company and has about a billion in excess capital and good revenue. The company still has extremely good ratings and its ratings show no decline. Like other financial companies, MetLife suffered losses on its investments and that deteriorated some of its cash position over the year. The company raised $2.3 billion in new capital though a stock offering in October. Although its income was down

significantly, its balance sheet is positive, and it is showing profits. The Agency has no cause for concern regarding MetLife.

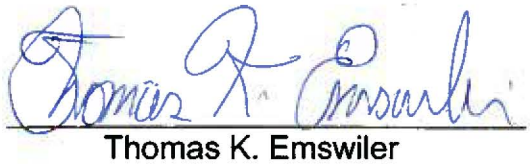
6. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting at 12:48 p.m. for a discussion of confidential proprietary information and personnel.

At 2:40 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 Saul adjourned the meeting at 2:40 p.m.

MOTION: That this meeting be adjourned.



Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. March 2009 Performance Review – G, F, C, S, I, and L Funds
3. Recommendations for Roth and Mutual Fund Window Accounts
4. Mutual Fund Window Illustration
5. Federal Retirement Thrift Investment Board – Thrift Savings Fund
6. Quarterly Financial Assessment of TSP's Primary Vendors – April 2009