THRIFT SAVINGS PLAN

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

GREGORY T. LONG
Executive Director

September 5, 2008

MEMORANDUM FOR: BOARD MEMBERS SAUL, FINK, WHITING, SANCHEZ, & DUFFY

FROM: Greg Long
Executive Director

cc: Tracey Ray
Chief Investment Officer

SUBJECT: Preparing for an Emergency Transfer of TSP Assets

On August 18, 2008, the Board requested a memorandum on the procedures to transfer assets from the incumbent investment manager to a new manager in the event of an emergency specific to the incumbent investment manager. While we do not anticipate such an emergency arising, planning for the possibility is a prudent exercise. In a non-emergency situation, the normal Request for Proposal (RFP) process would be followed.

There are four areas to consider in the development of this plan: the authority to execute an emergency transfer, the actual transfer of assets from one manager to another, IT systems changes, and accounting issues.

Authority to Execute the Transfer

The five Presidentially-appointed fiduciaries are responsible for development of investment policies of the Thrift Savings Plan. The Board members meet their policy development obligations, in part, by approving selection criteria within the investment manager RFP. The most recent RFP included a requirement that the offerors articulate their procedures for transferring TSP assets to another custodian and manager. These commitments are contractually binding.

The Executive Director is the managing fiduciary and responsible for the execution of investment policies and disposition of plan assets. As such, determination of whether an emergency asset transfer is prudent rests with the Executive Director. In practice, the Executive Director would request an emergency Board meeting to seek concurrence before executing an emergency asset transfer.

Investment Manager Transfer

Once a determination is made that an emergency asset transfer is necessary, the Executive Director would communicate this to BGI's Chief Executive and the senior client relationship team members assigned to our account. Telephonic and in written communications would articulate that TSP assets should be moved out of the BGI commingled fund as soon as practicable and direct BGI to coordinate the transfer in consultation with the FRTIB Chief Investment Officer. We would simultaneously negotiate a sole-source contract with a new manager. Our discussions with another large passive investment manager indicate that they would prepare to accept a transfer immediately following receipt of a letter of intent and would be ready to receive the assets as soon as BGI could transfer them out.

BGI is contractually obligated to transfer assets to another manager within thirty days of receipt of notice of termination (for any reason) from the FRTIB. Our discussions with BGI confirm that the majority of plan assets could transfer much sooner. An "in-kind" transfer is the most efficient way to move assets and is preferred over liquidating securities and transferring cash. In practice, all assets which are not loaned as part of the securities lending program could be transferred in-kind within 3 days. Currently, this accounts for approximately 80% of all assets with BGI, although the percentage varies by fund. On pages 78-87 of BGI's response to the RFP, they detail procedures for transferring assets in-kind to another manager and the associated costs.

A determination on the disposition of the remaining assets would be made based on facts and circumstances at the time. The primary decision would be between liquidating the collateral held against the loaned securities with the current manager versus transferring the loans and related collateral to the new manager. Liquidation is generally more expensive but could allow to us complete the transition faster. Given current credit market conditions, it is likely that some illiquid cash collateral from the securities lending pool would need to transfer over to a new manager. The protection provided by the multi-billion dollar reserve which BGI has established for that account would not transfer. Our discussions with the incumbent and one other investment manager lead us to estimate that the remaining C Fund and I Fund assets would be moved within a week and the remaining F and S Fund assets within 2 to 3 weeks.

As a result of this process, TSP assets will be split between two investment managers for up to three weeks. During this time period each manager will be able to manually provide us with total portfolio value and earnings each day that they hold any TSP assets. We anticipate no interruption in participants' ability to access account information and conduct normal transaction activities.

Systems Changes

In order to execute participant transactions each day, we need to strike a price for each fund. Currently, the daily earnings of each fund are systematically fed into the Asset Manager Interface (AMI) which then automatically calculates fund prices. During a period when plan assets are held by more than one manager we will manually obtain fund earnings from each manager, manually calculate the sum of the fund's earnings and enter the data into the AMI in order to calculate fund prices and initiate the nightly processing cycle.

While this process can be completed manually for an indefinite period, we would seek to return to an automated AMI process as soon as practical. The Office of Automated Systems estimates that it would take 80 man-hours to develop and test those links with a new manager.

We also note that systems work required to accommodate two managers with an automated AMI process on a permanent basis is significantly more complex.

Accounting

The Office of Finance will be affected by the manual data entry. The FRTIB Finance team and Office of Investments will need to coordinate efforts to manually calculate daily earnings figures and initiate the AMI process. In addition, the Finance department will need to create and manage new general ledger accounts. However, those ledger accounts will not need to be created immediately and would therefore not impact the timing of any asset transfer.