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

THRIFT SAVINGS PLAN

MINUTES OF THE MEETING OF THE BOARD MEMBERS

May 16, 2011

Following an executive session, Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 16, 2011, at 9:33 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 Alejandro Sanchez of Florida, member; Michael D. Kennedy of Georgia, member; Dana K. Bilyeu of Nevada, 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; Renee Wilder, Director, Research and Strategic Planning; Laurence D. Fink, BlackRock Chairman and CEO; Richard Kushel, Head of BlackRock's Portfolio Management Group; and Lillian Wan, BlackRock Account Manager.

1. <u>Report from BlackRock Senior Management</u>.

Ms. Lillian Wan informed the Board that the Thrift Savings Plan's assets in the C, F, S, and I Funds have performed exactly as expected. She then introduced Laurence D. Fink, Chairman and CEO of BlackRock, and Richard Kushel, Head of BlackRock's Portfolio Management Group.

Mr. Fink briefly discussed BlackRock's recent acquisitions. BlackRock acquired Merrill Lynch Investment Management in 2006. BlackRock more recently acquired Barclays Global Investors. Mr. Fink reported that both of these entities are now fully integrated with BlackRock. Mr. Fink also briefly discussed BlackRock's business model. He explained that BlackRock's business is purely fiduciary; it does not engage in any proprietary trading.

BlackRock's current focus is on refining its business by, for example, improving risk management. Mr. Fink explained that BlackRock is evaluating and changing locations of its backup storage facilities to ensure that they are not on fault lines. Mr. Kushel explained that BlackRock now has a global trading platform, which creates better business continuity in the event of an emergency or natural disaster at any of its offices or facilities. The global trading platform also improves efficiency and decreases errors in the trading process. Mr. Kushel informed the Board that BlackRock's error rate is among the lowest of any firm in the world.

Mr. Kushel explained that BlackRock is also intensely focused on performance for its clients, whether that performance is measured in terms of investment returns, minimizing tracking error, or capital preservation. Mr. Kushel pointed out that the same people have been managing the TSP's portfolios for years.

Chairman Saul reminded Ms. Wan, Mr. Fink, and Mr. Kushel that the Board's primary concern is the safety and protection of participants' investments. Mr. Saul then asked Mr. Fink how he envisions BlackRock's relationship with the TSP in the future. Mr. Fink said that BlackRock would work with the TSP if the Board desired, in the future, to expand its number of indexed product options. However, he believes that the TSP is currently offering all of the right investment choices.

Mr. Sanchez asked Mr. Kushel which person at BlackRock is directly responsible for managing the TSP's portfolios. Mr. Kushel responded that Amy Schioldager, Global Head of Index Equity, and Tim Webb, CIO of Index and Model-based Fixed Income, are responsible for managing the TSP's portfolios.

Mr. Sanchez asked Mr. Fink for the name of BlackRock's president and the length of time the president has been working with BlackRock. Mr. Fink responded that BlackRock's president is Robert Kapito and that he has worked with BlackRock since the company was founded. Mr. Fink further explained that BlackRock is a public company with a board of directors. BlackRock's board of directors conducts a two day meeting in the fall of each year where they discuss management succession issues for every business. He explained that building a strong leadership team is a high priority for BlackRock's board of directors. Mr. Fink surmised that BlackRock has one of the lowest turnover rates in the financial services industry.

Mr. Kennedy asked Mr. Fink if BlackRock is planning any additional acquisitions in the future. Mr. Fink informed the Board that BlackRock is not planning any acquisitions for the future. Mr. Kennedy also asked Mr. Fink to describe the means by which BlackRock retains key employees. Mr. Fink explained that BlackRock's culture supports long-term professional development. He also explained that BlackRock's compensation packages consist, in large part, of restricted stock.

Ms. Bilyeu commended BlackRock for making its acquisition of Barclays Global Investors seamless from its clients' perspectives.

Chairman Saul thanked Ms. Wan, Mr. Fink, and Mr. Kushel for attending the Board meeting. Whereupon, Ms. Wan, Mr. Fink, and Mr. Kushel left the meeting and a short recess was taken. The meeting reconvened at 11:00 a.m.

2. <u>Approval of the minutes of the April 18, 2011 Board member meeting</u>.

Chairman Saul entertained a motion for approval of the minutes of the April 18, 2011 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 April 18, 2011, be approved.

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

a. Monthly Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). She informed the Board that the TSP continues to receive about $2 billion in monthly contributions and holds nearly $290 billion in trust for its 4.47 million participants. She also informed the Board that the civilian Federal employee participation rate is about 85.3%.

Ms. Wilder also corrected an error in the February and March Thrift Savings Fund statistics. The active-duty uniformed services participation rate was approaching 40% in February and March; not 50%.

Ms. Wilder also reported that withdrawal activity is about 15-20% higher than the previous year during the same period. Mr. Saul requested a report showing loan and withdrawal activity for the previous three to four years. Mr. Long responded that he would provide year-by-year statistics on withdrawal and loan activity to all the Board members.

b. Monthly Investment Performance Report

Ms. Ray reviewed the May 6, 2011 memorandum, entitled "April 2011 Performance Review" (attached). She reported that the S Fund had a tracking error of negative 5 basis points, primarily as a result of the optimization process. The I Fund had a tracking error of positive 6 basis points, primarily as a result of the tax effect. The year-to-date tracking error for the I Fund is positive 20 basis points.

Ms. Ray reported that the I Fund is still expensive in terms of trading costs. Its trading costs were 17 basis points in April and 37 basis points year-to-date.

The G Fund rate is 2.88% for May. The equity funds had a strong month in April, but they are down in May. Month-to-date, the S Fund is down 2.6% and the I Fund is down 4.6%.

Mr. Sanchez asked Ms. Ray how often she speaks to Amy Schioldager, BlackRock's Global Head of Index Equity, and Tim Webb, BlackRock's CIO of Index and Model-based Fixed Income. Ms. Ray replied that she spoke to both of them on a monthly basis during the global financial crisis of 2008 and 2009. She explained that she ensures that she always has unlimited access to Amy Schioldager and Tim Webb. However, she finds that there is only occasionally a reason to contact them directly in lieu of contacting the Agency's Account Manager, Lillian Wan. Mr. Sanchez suggested that the Agency stay in more regular contact with Amy Schioldager and Tim Webb.

c. Legislative Report

Mr. Trabucco reported that the U.S. Treasury has suspended issuance of new Treasury securities to the G Fund because the Federal government has reached its statutory debt limit. However, the integrity of the G Fund is not compromised. By law, all of the G Fund monies will still be on account with the Treasury, and the interest which would accrue if the G Fund were fully invested will still be credited to the G Fund. Mr. Trabucco explained that the G Fund account balances will be exactly the same from day to day as if they were invested in Treasury securities. Furthermore, disbursements of TSP loans and withdrawals will not be delayed, nor will the amounts of those payments be reduced.

Mr. Trabucco also informed the Board members that he provided the dates of the July and September-November Board meetings to Congressman Issa's staff as possible dates for the Board to meet with Congressman Issa.

4. <u>Mid-Year Budget Review</u>.

Mr. Long proceeded to discuss the mid-year budget review. Mr. Long explained that the purpose of the mid-year budget review is to determine whether he needs to request an increase from the Board for the current year's fiscal budget. The Board has approved a fiscal 2011 budget of $131.8 million: $130.3 million was approved at the October 2010 meeting, and an additional $1.5 million for test tools was approved at the January 2011 meeting. Mr. Long reported that the Agency anticipates its total expenditures for fiscal 2011 to be $131.5 million, or $0.3 million less than the fiscal 2011 budget.

Mr. Long highlighted that the Agency has achieved several notable accomplishments thus far during the fiscal 2011 year. These accomplishments include: implementation of beneficiary participant accounts; introduction of the L 2050 Fund and the retirement of the L 2010 Fund; acceptance and processing of child support court orders from all state agencies and the District of Columbia based on a data match project with the U.S. Office of Child Support Enforcement; successful completion of the virtualization of all data center servers; and completion of the *Exploring the TSP Investment Funds* DVD.

Mr. Long pointed out that the *Exploring the TSP Investment Fund* DVD has earned numerous awards. Ms. Moran explained that the Agency plans on distributing the DVD online and through the mail. Ms. Moran stated that the Agency anticipates that an online version of the DVD will be up and running by the end of June. In addition, the Agency plans on conducting targeted mailings of the DVD to select groups of participants. Participants will be selected to receive the DVD via mail based on a variety of factors, including the participant's age, whether the participant is auto-enrolled, whether the participant is receiving agency contributions but is not making contributions himself or herself, and the cost of the mailings. Targeted mailings of the DVD will be an ongoing process that depends on cost, the target population group, and budgetary constraints. For the initial round of targeted mailings, the Agency plans on mailing the DVD to the 70,000 participants who are auto-enrolled. The Agency would also like to mail the DVD to the 350,000 or more participants who receive agency contributions but do not make their own contributions, but the Agency currently has no definite plans to do so. The Agency, cognizant of cost, will tailor such a mailing (if it occurs) to those who would benefit most from the mailing, with age potentially being used as a useful criteria in the targeted mailing.

Chairman Saul, stressing the importance of the targeted mailings, asked how much money is in the fiscal year 2011 budget for the targeted mailings. Mr. Long responded that there is no money allocated in the budget for targeted mailings, and that this is a result of the Board asking Mr. Long to reduce his fiscal 2011 budget request by $5 million and other Agency initiatives taking priority over the targeted mailings. Mr. Long explained that the Communications part of the budget is the most flexible, and hence it is most likely to absorb cuts, since Mr. Long's primary goal is to make sure the Agency is open for business everyday and adequately processes transactions, loans, withdrawals, and distributions. Mr. Long pointed out that mailing a DVD costs about $1 per person, thereby making a mailing of the DVD to every participant prohibitively expensive.

Chairman Saul then asked Ms. Moran if, nevertheless, there was enough money in the fiscal year 2011 budget to do one round of targeted mailings. She responded that there is enough money to mail the DVD to the 70,000 participants who are auto-enrolled, and that she plans on completing these mailings by the end of September.

Currently, Mr. Long anticipates a need for $147.2 million in the fiscal 2012 budget. Chairman Saul and the other Board members noted that this is a significant increase from previous years' budgets. Mr. Petrick described the Agency's budget for previous fiscal years: $108.4 million in 2008; $114.5 million in 2009; $130.3 million in 2010; and $131.8 million in 2011. Mr. Petrick also explained that in 2008, 2009, and 2010 the Agency's actual expenditures were less than the fiscal year budget for that year.

Mr. Long pointed out that the projected budget increase in fiscal year 2012 is due to many factors, including significant changes to the TSP and the Agency resulting from: (1) the implementation of the Roth-feature, (2) the re-bidding of the Agency's record keeping contracts, (3) the move to a new office location, (4) a reorganization arising from the retirement of several key personnel, and (5) ensuring that the Agency has a very professional approach to building a leadership team now and for the future. However, Chairman Saul explained, and the other Board Members agreed, that the increase requested in the fiscal 2012 budget will warrant a great amount of discussion before a fiscal 2012 budget will be approved. Board Member Sanchez noted that the Agency's suggested 2012 fiscal budget must be considered in light of President Obama and Congress' concern over Federal spending, even though the Agency does not receive Congressional appropriations. As a result, Chairman Saul explained that Mr. Long and the Board will be required to make some difficult choices before fiscal 2012.

The Board agreed to have a serious, in-depth discussion about the fiscal 2012 budget during the July 18, 2011 Board meeting. Mr. Emswiler suggested that the portion of the meeting concerning the budget discussions be open to the public. Board Member Sanchez expressed his appreciation and thanks to Mr. Long for compiling a helpful memo on the fiscal year 2011 and 2012 budgets.

In order to facilitate discussion of the budget during the July 18 Board meeting, Board Member Kennedy suggested that the Executive Director prioritize the Agency's goals and activities for fiscal 2012 so that the Board can approve a budget that allows the Agency to operate and assist participants in the most efficient manner possible; the other Board members agreed. Mr. Long agreed to prioritize the Agency's goals and activities, and he noted that he has done so in the past. Chairman Saul stressed that Mr. Long did what was asked of him for fiscal year 2011.

Chairman Saul suggested that targeted mailings of the DVDs take a higher priority in the fiscal 2012 budget than they did in the fiscal 2011 budget. Mr. Long responded that while the DVDs are important, and while he would love to be able to send a copy of the DVD to every participant, he feels that other activities and goals of the Agency will likely need to take precedence over the targeted mailings in 2012. For example, Mr. Long explained that he foresees upgrading the technology in the data centers taking a top priority in the fiscal 2012 budget, since the data centers are vital to ensuring smooth and efficient Agency operations. Mr. Hagerty elaborated, stating that routine technology refreshments of servers and storage was not achieved in fiscal 2011 due, in part, to budgetary constraints; he explained that many of these devices age out after three to five years and become problematic to maintain. Although some of this equipment was purchased a couple years ago, Mr. Hagerty stated that the systems need to be improved and upgraded frequently due to the large increases in the number of TSP participants and the future implementation of the Roth-feature.

Board Member Sanchez, noting that technology is constantly evolving and improving, asked whether the $10 million the Agency wishes to spend on the mainframe will result in the Agency acquiring the best technology available. Mr. Hagerty said that the Agency will seek to purchase the best technology available given factors such as performance, price, sales cycles, and ability to upgrade in the future. Mr. Hagerty recalled that the Agency purchased two mainframes in late FY 2007. He explained that the Agency is trying to get at least 5 years out of the mainframes. However, he noted that when the Agency purchased the mainframes, the mainframes, while new, were already two years old in terms of technology. Chairman Saul then pointed out that the Agency should not have to physically install new mainframes until October 2013. Mr. Long explained that if the Agency, during its discussions with IBM, discovers that its capacity is constrained by the mainframes such that the Agency's ability to perform everyday transactions is at risk, then the Agency will seek to purchase the mainframes in 2012. Mr. Long discussed how the Agency seeks to purchase reliable and secure equipment that provides an excellent return on investment. Chairman Saul stressed that the Agency must ensure that it gets the most value for its money when it purchases technology.

Chairman Saul then proceeded to discuss the Agency's plans to move to a new office building located near Union Station. Mr. Long and Mr. Petrick explained that the Agency plans on moving in the first half of 2012, that the Agency's last rent payment to the current office building will be in December 2012, and that the Agency's first rent payment for the new building will not be due until January 2013. Thus, the Agency will not be paying double-rent as a result of the move. However, Mr. Long explained that there are significant one-time costs associated with the move. He also stated that the Agency plans to re-use, as much as possible, the furniture in the current building in the new building.

Board Member Bilyeu then stated that, during the July 18 budget discussion, she would like to be able to talk about the costs of implementing the Roth-feature on a macro-basis. Mr. Long responded that the Agency is moving towards a project-based budget for the Roth-feature as well as everything else that the Agency does.

Chairman Saul then inquired about whether the Agency deducts or amortizes expenditures on capital assets. Ms. Susan Crowder, the Agency's Chief Accounting Officer, stated that the Agency, pursuant to relevant accounting practices, amortizes expenditures on capital assets. Mr. Long and Mr. Petrick explained that the Agency's fiscal year budgets merely reflect the Agency's outlays; as a result, the budgets do not reflect amortization deductions or loan fees charged to participants. In the end, the participants' accounts only get charged for Agency outlays minus the sum of amortization deductions, loan fees, forfeitures, etc.—thus, participants' accounts are almost always charged less than the budget for a fiscal year.

Chairman Saul suggested that the Board discuss the projected increase in personnel costs during the July 18 Board meeting. He stressed that although the Agency's expenses will continue to grow as the TSP grows, economies of scale suggest that the Agency's expenses should grow at a lower rate than the TSP's growth rate.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 11:29 p.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Secretary

Attachments
1 Thrift Savings Fund Statistics
2. April 2011 Performance Review – G, F, C, S, I, and L Fund
3. Fiscal Year 2011 Mid-Year Budget Review and Estimates for Fiscal Year 2012