



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002
MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 27, 2014

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 27, 2014, at 8:30 a.m., Eastern Time. Parts of the meeting were open to the public and parts of the meeting were closed at the Board's offices at 77 K Street, N.E. In attendance were Dana K. Bilyeu of Nevada, member; Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member (by telephone); William S. Jasien of Virginia, member; Greg Long, Executive Director; James B. Petrick, Secretary and General Counsel; Mark E. Walther, Chief Operating Officer; Tracey A. Ray, Chief Investment Officer; Renée C. Wilder, Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs; Thomas K. Emswiler, Director, Office of Participant Operations and Policy; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; John Ramsey, Chief Information Security Officer; and Charles Bradshaw, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the September 29, 2014 Board Member Meeting

Chairman Kennedy entertained a motion for approval of the minutes of the September 29, 2014 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 September 29, 2014 be approved.

2. Thrift Savings Plan Reports

Mr. Long gave opening remarks, including a brief summary of the agenda for the meeting.

a. Monthly Participant Activity Report

Mr. Emswiler provided an overview of the Monthly Participant Activity Report. See "Thrift Savings Fund Statistics" (attached). Mr. Emswiler reported that since July 2014, the FERS participation rate has remained steady at 87.5%, the highest rate ever. Mr. Emswiler stated that the volume of hardship withdrawals and loans has been decreasing and that the run rates for hardship withdrawals and loans are, respectively, 9% and 8% lower than 2013, however, total dollar volumes for both are increasing. Mr. Emswiler further stated that there are now over 12,500 beneficiary participants who have an average balance of over \$87,000. Mr. Kennedy asked for an update on uniformed services personnel, and Ms. Weaver responded that the Agency

will have an opportunity to become part of the larger conversation when the Commission on Military Retirement and Benefits releases its recommendations.

b. Quarterly Investment Policy Report

Ms. Ray reviewed the Quarterly Investment Policy Report. See "Quarterly Investment Policy Report" (attached). Ms. Ray examined the tracking error of the BlackRock-managed funds versus their underlying indices, noting that the Funds tracked closely. The I Fund outperformed its index by 34 basis points for the year due to the tax effect. Ms. Ray noted that October has been a particularly volatile month as a result of world events. In October, the I Fund decreased by 3.6 percent, the C Fund decreased by 0.3 percent, and the S Fund increased by 0.7 percent. Ms. Ray stated that the market has recovered somewhat by the end of October, as earnings have been better than expected. Ms. Ray reviewed the proxy voting policy, stating that there were no exceptions, and that so far this year, the dollar amount of class action settlements in the S Fund is \$770,000. Ms. Ray noted that the I Fund has been suffering due to recent events in Europe, and that the C and S Funds have been performing the best.

Chairman Kennedy entertained a motion to reaffirm the investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Investment Fund, and the International Stock Index Investment Fund. The following motion was made, seconded, and adopted without objection:

MOTION: That the investment policies for the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Investment Fund, and the International Stock Index Investment Fund be reaffirmed.

c. Legislative Report

Ms. Weaver provided an update on the L fund default bill. She noted that the House and Senate would be back in session on November 12th, and she is optimistic that either the House or Senate version of the bill would move forward. Mr. McCray asked whether the Agency received any feedback from Capitol Hill staff and if the Agency preferred a particular version. Ms. Weaver replied that the House and Senate are working on finalizing one of the bills and that either version would be supported by the Agency.

3. BlackRock Account Review

BlackRock presented an update of the C, S, I, and F Funds. See "Blackrock Presentation" (attached). They stated that their core investment philosophy is that superior investment outcomes are best achieved through a disciplined objective process to managing return, risk, and cost. Their report focused on the performance of the individual funds, they reviewed the underlying equity indexing platform, and they also discussed their portfolio construction.

Mr. McCray asked BlackRock about the challenges they face in educating their clients about the need to make adequate investments throughout their career. Mr. Fink agreed that many clients take too much of a conservative approach, and that education is a key component in getting participants to understand the need to balance current consumption with future savings.

4. Quarterly Reports

a. Vendor Financials

Mr. Ahuja provided an overview of the Quarterly Vendor Financial Assessment (attached). Mr. Ahuja highlighted that on July 18, 2014, MetLife was identified as a Globally Systemically Important Insurer (GSII) by the International Financial Stability Board. In September, the Financial Stability Oversight Council (FSOC) notified MetLife that it has been preliminarily designated as a non-bank Systemically Important Financial Institution (SIFI). Mr. Ahuja noted that a final designation as a SIFI would subject MetLife to increased regulation.

Mr. McCray asked how a SIFI designation could impact an annuitant. Mr. Long responded that such designation would not impact the Agency's existing contract with MetLife, nor would it affect the Agency or the annuitant in the short-term or even in the near long-term, but that the Agency would track the impact of a potential SIFI designation on the rest of the marketplace.

b. Audit Status

Mr. Ahuja provided an update on Agency audit activity actions, reporting that out of 135 total findings, 74 were closed and 61 remained open. See "Quarterly Summary of Audit Recommendations" (attached). Mr. Ahuja stated that as of July 2014, there were 116 open audit findings, the majority of which resulted from the Department of Labor's (DOL) and KPMG's audit. Mr. Ahuja noted that the Agency provided DOL and KPMG with 17 closed findings. The Agency currently has 99 audit findings and considers approximately fifty percent of them to have been closed, subject to DOL's confirmation.

Mr. Long pointed out that the increased number of audit findings is due to the DOL significantly increasing the number of audits performed this year. Mr. Long noted that the Agency has done a good job of closing out existing audits. Mr. Ahuja concluded by stating the Agency is being subjected to new audits, but continues its efforts to increase the rate of closure to reduce the overall number of open audit findings. He further mentioned that the Agency has a formal mechanism to track and close open audit findings.

c. **Budget Review**

Ms. Crowder provided an overview of the 2014 budget, noting that as of the end of the fourth quarter, Fiscal Year 2014 actuals are within 1 percent of our \$201M, Budget allocation as projected. See "FRTIB FY 2014 Q4 Budget Review" (attached). Ms. Crowder added that as of September 30, 2014, the projected annual gross basis points is 4.6.

5. **Internal Audit Charter**

Derek Richardson, Agency's Auditor-in-Charge, formally presented the Internal Audit Charter for the Board's approval. See "FRTIB Internal Audit Charter" (attached). The Charter outlines the roles and responsibilities, along with the reporting structure of the Agency's internal audit function. Mr. Richardson indicated that the internal audit function would maintain a strong level of independence from the rest of the Agency. Mr. Richardson further stated that approving the Charter was the first step in building the internal audit function. Mr. Long remarked that the Agency plans to present the overall audit plan at the Board's February 2015 meeting. Mr. Kennedy stated that he thought this was a good plan, and the rest of the Board members agreed. The following motion was made, seconded, and adopted without objection:

MOTION: That the Board adopt the Internal Audit Charter as presented to the Board on October 27, 2014.

6. **Annual Review of Capital Markets and L Funds (Mercer)**

Mercer presented an analysis of the Lifecycle Fund Asset Allocation (attached). Their report focused on whether participants have sufficient retirement income, preserving capital around the date of retirement, and limiting the possibility that participants would run out of money in light of increased longevity. The report concluded that there was no compelling need for changing existing allocations. The Board thanked them for their information.

7. **Closed Session**

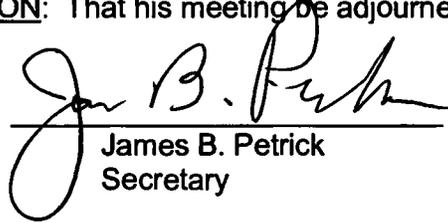
On a vote taken by the Chairman, the members closed the meeting at 11:52 a.m. for executive session.

At 1:23 p.m., upon completion of the executive session, the members reconvened the open portion of the meeting.

8. **Adjournment**

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 1:23 p.m.

MOTION: That his meeting be adjourned.



James B. Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. Quarterly Investment Policy Report
3. BlackRock Presentation
4. Quarterly Vendor Financial Assessment
5. Quarterly Summary of Audit Recommendations
6. FRTIB FY 2014 Q4 Budget Review
7. FRTIB Internal Audit Charter
8. Mercer Presentation – Federal Thrift Savings Plan: Lifecycle Fund Asset Allocation