



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002

MINUTES OF THE MEETING OF THE BOARD MEMBERS

November 19, 2015

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on November 19, 2015, at 8:30 a.m., Pacific Time. Parts of the meeting were open to the public and parts of the meeting were closed at the Board's alternate meeting location in San Francisco. In attendance were Dana K. Bilyeu of Oregon, member; Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Greg Long, Executive Director; James B. Petrick, Secretary and General Counsel; Mark E. Walther, Chief Operating Officer; Ravindra Deo, Chief Investment Officer; Karen Vaughn Peck, Acting Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs (by telephone); Renée Wilder Guerin, 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; Jim Courtney, Director, Office of Communications and Education; Scott Cragg, Chief Technology Officer, and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the minutes of the October 27, 2015 Board member meeting

Chairman Kennedy entertained a motion for approval of the minutes of the October 27, 2015 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 October 27, 2015 be approved.

2. Thrift Savings Plan ("TSP") Activity Report by the Executive Director

a. Monthly Participant Activity Report

Ms. Wilder Guerin provided an overview of the Monthly Participant Activity Report. See "Thrift Savings Fund Statistics" (attached). The total TSP grew in October to approximately 461 billion dollars. The participation rate dipped by a few tenths of a percentage point in October. Ms. Wilder Guerin noted that this dip was an annual event, and surmised that it was related to participants reaching their yearly 402(g) limits. Board member McCray noted that there were a large number of participants rolling money out of the TSP, while also noting an increase in participant contributions. Board member McCray asked Ms. Wilder Guerin if she had a sense as to what accounted for this dynamic. Ms. Wilder Guerin answered that many of the deposits would be loan repayments. In addition, the TSP has been augmenting its media efforts to reach out to

participants rolling their money out of the TSP to ensure that their decision to do so is an informed decision. Mr. Courtney affirmed Ms. Wilder Guerin's statement, and briefly covered the TSP's efforts across a variety of media and with the involvement of the human resources personnel of other agencies to ensure that participants are adequately provided with information to support their decision-making. Mr. Long highlighted the fact that there is still a positive trend with regard to individuals rolling their money into the TSP, but caveated that fact by noting that total dollars rolling into the TSP are less than total dollars going out of the TSP. Mr. Long touched on TSP messaging efforts and TSP operational reforms under way to ease the paperwork burden associated with participant roll-in as part of a larger TSP policy shift towards actively encouraging more participants to roll their money into the TSP.

Board member Bilyeu asked for an explanation of the similar average balances between Federal Employees' Retirement System ("FERS") and Civil Service Retirement System ("CSRS") participants, observing that intuitively one would think the CSRS participants' savings would outstrip the FERS participants', since the CSRS participants have been in their system for a longer period of time. Ms. Wilder Guerin responded that previously, there was a more pronounced difference, but that the number of CSRS participants has diminished over time while the number of FERS participants has grown, thus making the averages closer.

b. Monthly Investment Performance Report

Mr. Deo reviewed the memorandum entitled "October 2015 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo reported that the S Fund outperformed its underlying indices by 11 basis points due to security sampling and securities lending; the I Fund underperformed by 75 basis points, purely due to fair value pricing on the last day of the month, which is seen as a temporary effect.

For the year to date through October 31, the F Fund outperformed its underlying indices by 35 basis points due to pricing and securities lending; the S Fund outperformed by 43 basis points due to sampling and securities lending; and I Fund outperformed its underlying indices by 35 basis points due to the tax effect and the net of two fair value pricing impacts. Mr. Deo noted that the TSP had a very good month. U.S. stocks rose on positive news about earnings, gross domestic product, and payroll numbers, while international stocks rose on easing expectations in Europe and Japan and an interest rate cut in China. Mr. Deo stated that the L Fund is performing as expected, both this month and year-to-date.

c. Legislative Report

Ms. Weaver reported that the Department of Defense Authorization Act, plus companion legislation to correct errors, was passed by the Senate and House of Representatives. Ms. Weaver noted that an omnibus budget bill was also moving through the legislative process.

d. Office of Investments Report

Mr. Deo presented an in-depth overview of the Office of Investments ("OI"). See "OI Annual Report to the Board" (attached). Mr. Deo spoke about OI's focus on developing and implementing investment policy and providing subject matter expertise. Board member Jasien asked if OI's staff was indeed only three personnel. Mr. Deo responded that it was. Mr. Deo presented OI's chief missions of tracking the L Fund performance, noting that it tracked the retirement goal date of each L Fund year class, overseeing investment management services, and providing subject matter expertise and assistance to the rest of the FRTIB. Mr. Deo presented OI highlights including work on an investment consultant request for proposals; G Fund analysis; C Fund request for proposals; the annual L Fund review; BlackRock and L Fund audits; and shifting returns presentations from short-term to long-term to assist in better participant decision-making. Mr. Deo stated that goals for 2016 include BlackRock and L Fund audits; studying the path towards five-year L Funds; investigating the implications for the investment policy decisions made last month and in September; and completing the investment consultant request for proposals.

Board member Jones asked Mr. Deo to elaborate on the five-year funds concept. Mr. Deo noted that L Funds are currently established on a 10-year cycle. The industry convention is to use five-year funds and the current plan is to offer this option to participants. Board member Jones asked about the study and recommendation process for this requirement. Mr. Deo assured Board member Jones that the recommendation would involve the Office of Technology Services, the Office of Communication and Education, the impact on participants, and the impact on investments. Mr. Deo stated that the current expectation is that the recommendation will be to start a five-year fund in 2020. Mr. Long noted that research was still ongoing, but buttressed Mr. Deo's statement that a recommendation to the Board would be forthcoming.

Board member McCray asked Mr. Deo for his observations about the position, noting that Mr. Deo had recently assumed his position with a "fresh set" of eyes. Mr. Deo responded that the fundamental structure of the TSP "is a really good one." Mr. Deo stated that the participants were well-served and that the fundamental choices

were both simple and complete. The choices are structured so that participants can make the right decisions. Board member McCray asked if Mr. Deo anticipated any additional staffing needs. Mr. Deo did not see any requirement at the current time, but stated that he would be open to additional staff members if necessary. Mr. Long affirmed Mr. Deo's statement, noting that he would include a request for additional OI staff in the FRTIB's budget if Mr. Deo determined it necessary. Mr. Long noted the OI staff's access to additional consultant advice, and that members of the Office of the Chief Financial Officer ("OCFO") also supported the day-to-day investment operations of the TSP. Board member Bilyeu asked if the custodial banking relationship was also handled by OCFO personnel. Mr. Long stated that it was. Board member Bilyeu asked what office of the FRTIB had responsibility for securities lending oversight and what format the oversight took. Mr. Deo responded that OI was responsible for securities lending oversight and conducted that oversight on a "daily, weekly, monthly" basis. Board member McCray asked how Mr. Deo allocated his time thinking about the impact of other government actions to inform how the TSP might alter its operations going forward. Mr. Deo responded that OI constantly looked outside to ensure the office stayed abreast of the operational environment. Board member McCray asked if consultant advice would be a part of that effort, and Mr. Deo responded that it would be.

Board member Jasien asked Mr. Deo for his thoughts on target date strategies with an additional choice regarding levels of risk. Mr. Deo responded that the industry was moving towards greater "personalization" and that the "now and later" model towards which the TSP is beginning to plan will provide choice down to the individual participant level, thus providing a better investment solution for individual participants.

e. Investment Manager Annual Service Review

Mr. Deo introduced Lilian Wan of BlackRock, Inc. ("BlackRock"). Ms. Wan reviewed the performance of the C, F, S, and I Funds, assisted by Amy Schioldager, Scott Radell, Jason Strofs, and Mark McCombe. Mr. McCombe summarized BlackRock's investment management philosophy and its awareness of the global economic and political environment. Board member Jones asked Mr. McCombe to elaborate on how BlackRock's awareness of the global economic and political environment affected its investment strategy. Mr. McCombe responded that BlackRock's philosophy revolves around having "the best investment management capability" and "global presence" that provides "proximity to the underlying assets" that allows BlackRock to assess the direction of the investment market most effectively. Mr. McCombe also highlighted BlackRock's support for "human capital" and its focus on performance.

Chairman Kennedy asked Mr. McCombe if he could recommend any innovative features that other clients of BlackRock were currently employing. Mr. McCombe responded that there are corporate plans that have greater flexibility around generating yield but that it was too early to recommend specific features. Ms. Schioldager contributed that the TSP was already "pretty advanced," citing the TSP's offering of passive exposures and contrasting that effort with other defined contribution plans that are "still 100 percent active." Ms. Schioldager recommended a continuing focus on target date funds; making those target date funds the default option for participants; and lastly, furthering the asset class exposure of participants. Board member Jasien asked Mr. McCombe to evaluate the key challenges facing BlackRock. Mr. McCombe discussed market challenges, including the "lower for longer" environment in the fixed income space; actions the Federal Reserve might take going forward; the oil market; a world of increasing global divergence; and the increasing impact of geopolitics on market behavior. Board member Jasien thanked Mr. McCombe for his insight and expressed the FRTIB's continuing interest in best practices from any source.

Board member McCray asked Mr. McCombe to explain BlackRock's approach to risk management. Mr. McCombe highlighted BlackRock's emphasis on data and information, as well as the TSP's ability to understand the nature of the assets that make up the pension pool and BlackRock's support for a risk and quantitative analysis unit to provide BlackRock's portfolio managers with a lens through which to assess risk through stress testing manager portfolios. Mr. McCombe also cited the capabilities available through BlackRock's Aladdin portfolio management tool.

Ms. Schioldager briefly covered the TSP's assets under management with BlackRock; the organizational chart of BlackRock staff supporting the TSP; the role of the risk and quantitative analysis unit; and risk management generally at BlackRock. Board member McCray asked Ms. Schioldager to describe how BlackRock's operational risk management process changed from lessons learned during the financial crisis. Ms. Schioldager responded that the recent financial crisis meant more volatility in the equity markets, with a corresponding rise in the importance of tracking. Ms. Schioldager stated that her response in that situation was to trade and take corporate actions in a more conservative manner. Board member McCray asked Mr. Long if there had been any disruption in communication with BlackRock during the financial crisis. Mr. Long responded that FRTIB was in almost daily contact with BlackRock and that communications had been outstanding. Ms. Schioldager discussed BlackRock's investment philosophy and process.

Board member Bilyeu asked if Ms. Schioldager was aware of any best practices in index selection. Ms. Schioldager responded that she has been seeing a move

towards a single global equity benchmark. Mr. Long noted that FRTIB regularly looks at its index choices through an external consultant. Board member McCray asked when the next examination of FRTIB's index choices would be. Mr. Long responded that the Board could choose when the examination should occur, but noted that conducting an annual review could drain FRTIB's resources. Ms. Schioldager closed by examining the balance checking of BlackRock's transaction costs, mostly in the context of the S Fund, as well as BlackRock's performance across the suite of TSP portfolios under management.

Mr. Radell noted similarities between her work and Ms. Schioldager's, but highlighted differences as they related to fixed income. Mr. Radell covered the overall organization of her group and BlackRock's innovation with regard to fixed income exchange traded funds.

Mr. Strofs provided a brief overview of securities lending generally; BlackRock's use of securities lending to enhance portfolio returns; and BlackRock's organization and staffing.

Mr. McCombe gave closing remarks for BlackRock. Chairman Kennedy encouraged BlackRock to provide any best practices or white papers on topics that might be of interest to the Board. Chairman Kennedy thanked the BlackRock personnel for their time.

3. 2016 Proposed Internal Audit Schedule

Mr. Derek Richardson from the Office of Enterprise Risk Management provided a report on the 2016 proposed internal audit plan. Mr. Richardson proposed moving the audit plan from a fiscal year to a calendar year schedule. Mr. Richardson provided updates on the manual adjustment audit, which has concluded; the daily investment processing audit; the procurement audit; and the contract management audit. Mr. Richardson addressed the development of the internal audit plan and proposed future audits for lockbox operations, the Omni application, the Technology and Enterprise Support Services contract, a cyber security and incident response audit, and a death benefits process audit. Board member McCray asked if there were high risk items that Mr. Richardson's team could tackle if additional resources were provided. Mr. Richardson said that there were, but that these high risk issues were also being looked at by the Employee Benefits Security Administration ("EBSA") and the Department of Labor ("DOL"). Mr. Richardson stated that the high risk items have decent coverage. Mr. Richardson discussed next steps for the internal audit team. Board member McCray asked how switching the audit schedule from a fiscal year schedule to a

calendar year schedule would impact audit timelines, and Mr. Richardson responded that he could have all internal audits completed by the end of December 2016 with reporting in January 2017. Board member McCray asked whether there would be interim reports, and Mr. Richardson responded that there would be. Chairman Kennedy asked for a formal schedule for audit updates, and Mr. Richardson agreed to expand the quarterly audit statistics update to include expanded audit updates. Mr. Walther noted that FRTIB is still in the process of assessing its ability to absorb all scheduled DOL and EBSA audits.

The following motions were made, seconded, and adopted without objection.

MOTION: That the proposed 2016 internal audit plan be adopted.

MOTION: That the audit schedule move from a fiscal year to a calendar year schedule and that the date changes proposed by Mr. Richardson for internal audit completion be adopted.

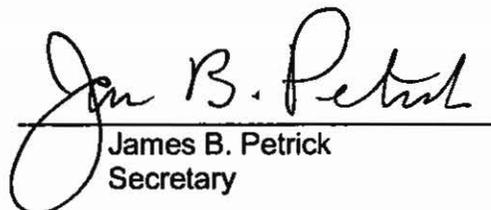
4. Motion to Enter Closed Session

On a vote taken by Chairman Kennedy, the members closed the meeting at 10:40 a.m. PST for Executive Session. At 11:13 p.m. PST, upon completion of the Executive Session, the members reconvened the open portion of the meeting.

5. Adjourn

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 11:15 a.m. PST.

MOTION: That this meeting be adjourned.


James B. Petrick
Secretary

Attachments

- 1. Thrift Savings Fund Statistics**
- 2. October 2015 Performance Review – G, F, C, S, I, and L Funds**
- 3. OI Annual Report to the Board**