



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

77 K Street, NE Washington, DC 20002

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 25, 2016

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 25, 2016, 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., Washington, DC. 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; Megan G. Grumbine, Secretary and General Counsel; Mark E. Walther, Chief Operating Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Scott Cragg, Chief Technology Officer; Ravindra Deo, Chief Investment Officer; Tee Ramos, Director, Office of Participant Operations and Policy; Karen Vaughn Peck, Acting Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the March 29, 2016 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the March 29, 2016 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 March 29, 2016 be approved.

2. Thrift Savings Plan (TSP) Activity Report.

Mr. Long gave opening remarks and introduced Mr. Tee Ramos in his new capacity as Director of the Office of Participant Operations and Policy.

a. Monthly Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). The participation rate for March was 89.3 percent for civilian federal employees. Uniformed services participation ended March at 43.9 percent. Mr. Ramos also highlighted that the number of Roth accounts increased to 732,000, with uniformed service members constituting 52 percent of those accounts. Mr. Ramos and Mr. Long briefly addressed planning for the Agency's new call center and participant services procurement. Member Jasien asked what the Agency felt explained the increase in participation rates. Mr. Ramos attributed the increase in participation rates to automatic enrollment efforts and Agency communications. Mr.

Courtney discussed Agency communication efforts. Member Jasien inquired as to available metrics for the Agency's communication efforts. Mr. Courtney discussed visible impacts of the Agency's communication efforts. Mr. Long discussed additional Agency efforts to increase awareness of TSP benefits and plan design. Mr. Long noted that OCE has scheduled a presentation at the next board meeting in May that will discuss specific communication campaigns and how the Agency has measured the impact of those campaigns.

b. Legislative Report

Ms. Weaver reported that the House budget resolution has not yet moved forward. She stated that both the House and Senate are moving forward on appropriations bills without a budget resolution. Ms. Weaver noted that the Agency will continue to monitor legislative activity. Ms. Weaver also reported that the House Armed Services Committee has begun to hold hearings and markups on its version of the next National Defense Authorization Act (NOAA). Last year's NOAA contained a provision for blended retirement that added a definition of the term "separation" that was different than the definition currently used by the Agency, and would have disadvantaged service members. At the FRTIB's request, the House intends to delete that definition in this year's bill.

c. Investment Policy Report

Mr. Deo reviewed the monthly investment performance report. See "March 2016 Performance Review – G, F, C, S, I, and L Funds" (attached). In the I Fund, BlackRock outperformed the index by eight basis points, primarily due to the tax effect. In the S fund, BlackRock outperformed the index by six basis points, primarily due to securities lending. For the year, in the F Fund, BlackRock outperformed the index by 11 basis points, primarily due to securities lending. In the S Fund, BlackRock outperformed the S fund index by 25 basis points, primarily due to securities lending. Lastly, BlackRock outperformed the I Fund index by 78 basis points, primarily due to the reversal of the fair value pricing that occurred on December 31st, 2015.

Mr. Deo attributed strong gains and positive returns in the C, S, and I Funds to the willingness of central banks around the world to boost economic growth. Mr. Deo also noted that the I Fund was assisted by weakness in the US dollar, and the F Fund gained as expectations of the Federal Reserve tightening its monetary policy fell. In April, Mr. Deo reported that the C, S, and I Fund all made gains, while the F Fund remained steady for the month. Mr. Deo further highlighted the long-term advantages of the Agency's current investment policy in his report, particularly in the returns of the L Funds. Mr. Deo concluded by reporting that BlackRock voted all proxies for the funds in the fourth quarter of 2015 in accordance with their policy, and that the C Fund opened one new claim. Member Bilyeu asked Mr. Deo to provide the dollar value of all claims, and Mr. Deo agreed to provide that information.

Chairman Kennedy then entertained a motion to reaffirm the current investment policies. The Board 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 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 Common Stock Index Investment Fund, the Fixed Income Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

3. Quarterly Reports.

a. Budget Review

Ms. Crowder noted that actual Agency spending is trending above current budget allocation projections, largely due to increased spending on cybersecurity. Ms. Crowder projected that additional near-term funding may be required for cybersecurity and response to audits, but final funding requests would only follow the completion of an analysis of the Agency's remaining projected budget execution. Ms. Crowder also noted that the Agency has committed 68.7 percent of its \$219.9 million budget allocation. Mr. Long reiterated the possibility that the Agency may return to the Board for additional budget authority based on spending related to cybersecurity and audit response. Member Bilyeu asked Ms. Crowder to quantify spending related to cybersecurity and audit response. Ms. Crowder responded that the Agency is running ahead of its budget projections by approximately three to four percent, mainly due to Office of Technology Services cybersecurity efforts. Member Jasien asked if Ms. Crowder could forecast the eventual total amount. Ms. Crowder responded that final estimates were currently underway. Mr. Long stated that the Agency hoped to have that estimate in a month. Mr. Jasien asked for a rough order of magnitude for the final

supplemental budget request, and Mr. Long responded that it would not be a large amount. Chairman Kennedy stated that he looked forward to getting the final report next month.

b. Office of Enterprise Risk Management Report

Mr. Ahuja provided an update on the status of audit activity in the current fiscal year. Mr. Ahuja stated that the Agency has completed 10 audits. Most audits began in fiscal year 2015, were undertaken by the Employee Benefits Security Administration (EBSA), and crossed over to fiscal year 2016. Twelve EBSA audits are still in progress, which are a combination of fiscal year 2015 and fiscal year 2016 audits. There are an additional 12 audits forthcoming. Member Bilyeu and Mr. Ahuja briefly discussed audit closure standards and audit scheduling.

Mr. Ahuja turned to the number of audit findings. The Agency started the fiscal year with 129 open findings, of which 125 were from the Department of Labor (DOL) and KPMG teams. Four findings were from the Agency's external auditor, Clifton Larson Allen (CLA). Mr. Ahuja reported that of the 129 findings, the Agency considers 79 closed and 50 open. Member Bilyeu asked whether Mr. Ahuja's figures contained new findings from 2015. Mr. Ahuja responded that they did. Mr. Jasien asked whether the numbers as presented synchronized with DOL's views on closure. Mr. Ahuja stated that they did, based on a reconciliation process and a forthcoming July summarization of open and closed audit findings by DOL. Mr. Long stated that the Agency would try to find a way to better synchronize the Agency's perspective on the status of audit findings with DOL/EBSA. Mr. Ahuja noted certain themes in the audit findings: first, information technology (IT) policies and procedures; access controls; system authorization; and segregation of duties. Chairman Kennedy asked whether there was any particular category that constituted the majority of findings. Mr. Ahuja responded that the majority were IT policies and procedures and access controls. Member Jones agreed that those were the majority in terms of number and asked whether they were also the weightiest in terms of significance. Mr. Ahuja responded that, in his view, access controls and segregation of duties would be the most significant.

c. Annual Financial Audit - CLA

Mr. Long introduced Thomas Rey, Michele Chalmers, and David Scaffido as auditors from CLA. Mr. Rey addressed the overall status of the financial statement audit, which resulted in an unmodified or clean audit opinion. Ms. Chalmers discussed the general standards of the audit, reiterated that the audit resulted in an unmodified, clean opinion for the year, but noted that there was a letter on internal controls in which CLA identified two significant deficiencies.

Mr. Scaffido addressed the identified deficiencies concerning the Agency's security program and configuration management. Other issues identified were access control configuration management, continuity planning, and the security program.

Ms. Chalmers discussed two CLA findings in the financial audit. The first resulted from the Agency being unable to immediately provide CLA with a complete listing of specific transactions at a participant level. The Agency is able to create custom reports, however, it takes about two to three months to actually generate such a report. The last issue was related to the ability of an individual at Serco to reassign cases when processing benefit payments without notice to the Agency that such reassignments had occurred. The Agency intends to build a report that will alert Agency-personnel when a contractor performs a reassignment in December 2017. Ms. Chalmers discussed CLA's new accounting policy and that the financial statement did not generate disclosures that CLA considered material. Ms. Chalmers concluded by providing an overview of the planned June – August 2016 review.

Member Jasien asked for a response from Mr. Long to CLA's findings. Mr. Long responded that the Agency is prepared to address CLA's findings. Mr. Long noted that the audit findings were consistent with findings from DOUEBSA; that the Agency had made meaningful progress on security authorizations; and that the Agency is working diligently on closing audit findings. Mr. Walther commented that all the findings from CLA map to other known audit findings, and that therefore there is a plan of action to mitigate or remedy each one.

d. Office of Enterprise Planning (OEP) Report

Ms. Vaughn Peck provided an overview of the process that the Agency uses for both planning and prioritization, as well as to give the Board a preview of the initial draft of the 2017 – 2021 strategic plan. Ms. Vaughn Peck discussed the Agency's integrated strategic planning and performance management framework, or Enterprise Planning Process. Member McCray asked about the sources of the data input to the planning process. Ms. Vaughn Peck discussed OEP's decision intelligence portfolio and the benchmarking and data collection processes that inform the strategic planning process. Member McCray asked whether the planning processes were tested by people outside the Agency, and Ms. Vaughn Peck responded that that would be a component of the next evolution of OEP's maturity in planning. Mr. Long noted that the Agency employs a professional facilitator to provide some external perspective. Ms.

Vaughn Peck discussed prioritization in the enterprise planning process and its importance in aligning daily operations to strategy. Ms. Vaughn Peck noted that the availability of resources that are committed to work on the Agency's highest priorities may delay work that is dependent on the same resources and of a lower priority. Ms. Vaughn Peck highlighted plan administration and agency operations as the most important work that the Agency does. Ms. Vaughn Peck provided an overview of other OEP portfolios. Member McCray asked how risk is addressed in the planning process. Ms. Vaughn Peck responded that the impact and likelihood of risks associated with various portfolios is assessed as part of the planning process. Mr. Ramos provided an overview of Agency planning goals and outcomes. Mr. Ramos stated that an initial draft plan for goals from 2017 through 2021 would be presented to the Board. Ms. Vaughn Peck concluded with a discussion of how the various levels of the planning process align and interact.

e. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:35 a.m. for executive session.

At 1:11 p.m., upon completion of the executive session, the members reconvened the open portion of the meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 1:11 p.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. March 2016 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB FY 2016 Q2 Budget Review
4. FY 2016 External Audit Activity
5. Thrift Savings Fund Washington DC Financial Statements December 31, 2015 and 2014
6. Strategic Planning and Policy Division, Office of Enterprise Planning-Planning and Prioritization