



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 25, 2016

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a telephonic meeting of the Board members on January 25, 2016, at 8:34 a.m., Eastern Time. Parts of the meeting were open to the public and parts of the meeting were closed. All Board members, Agency staff members, and members of the public attended by telephone. 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; 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; Renée C. Wilder Guerin, Acting Director, Office of Participant Operations and Policy; Karen Vaughn Peck, Acting Director, Office of Enterprise Planning; and Ernest Wiltherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the December 14, 2015 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the December 14, 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 December 14, 2015 be approved.

2. Thrift Savings Plan (TSP) Activity Report.

Mr. Long gave opening remarks, explaining that the Government was closed due to a historic snowstorm in Washington, DC, but the Agency was still able to fulfill its statutory obligation to hold this Board meeting by doing so telephonically. Mr. Long also informed the Board members that Mr. Petrick will be retiring on February 3, 2016, and news of his replacement is forthcoming.

a. Monthly Participant Activity Report

Ms. Wilder Guerin reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). The participation rate at the end of 2015 was 88.1 percent, and Ms. Wilder Guerin expects an increase in that number in January as individuals who reached contribution limits in the final months of 2015 begin to

contribute again. Uniformed services participation ended 2015 at 42.4 percent, an increase over the previous year. Ms. Wilder Guerin also highlighted that the number of Roth accounts is approaching 700,000.

Ms. Wilder Guerin reported that in 2015, fewer separated participants withdrew cash lump sums or transferred their balances to other institutions. A higher number of participants took aged-based withdrawals in 2015 than the previous year, but there were fewer financial hardship withdrawals and loan activity held steady. Ms. Wilder Guerin noted that these numbers may be the result of the Agency's efforts to communicate the benefits of staying in the Plan to participants.

b. Legislative Report

Ms. Weaver reported that both the House and Senate cancelled business for the week due to the storm. She stated that the President's budget is due in early February and the Agency will monitor the House mark up of a budget resolution shortly thereafter. Ms. Weaver also reported that the Agency is coordinating with the Department of Defense on the implementation of the uniformed services blended retirement.

c. Investment Policy Report

Mr. Deo reviewed the monthly investment performance report. See "December 2015 Performance Review – G, F, C, S, I, and L Funds" (attached). There was a significant tracking error in the I Fund for December driven by fair value pricing on December 31. Absolute returns for December were negative for all funds: the F Fund due to the first increase in interest rates by the Federal Reserve Board since June of 2006; the C and S Funds resulting from declines in energy, materials and concerns over China; and the I Fund caused by weakness in Europe and the previously mentioned fair value pricing.

Mr. Deo reported that for 2015, tracking errors in the F and S Funds were driven by securities lending, and fair value pricing events at the end of each of the last two years affected the tracking error in the I fund. He noted that 2015 was an extremely efficient year for trading costs in the C and S Funds, but this is unusual and should not be expected to repeat. In January thus far, Mr. Deo reported that the C, S, and I Funds are all down, and the G and F Funds are up, explaining that activity in all funds has been driven by the slowing economy in China and the decline in oil prices.

New to this month's report is a section on long-term returns, and Mr. Deo explained that the 5- and 10-year numbers show the long-term benefits of investing in equities and show that the L Funds are performing as expected. Mr. Deo also highlighted the new charts in the report. Finally, Mr. Deo drew the Board's attention to the revised class action settlement table, showing that nine new claims were opened for the quarter and no settlements closed for the year.

Chairman Kennedy then entertained a motion to affirm 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.

After the resolution was adopted, Mr. Deo highlighted one more positive development – on average, approximately 17,000 additional participants per month were enrolled in the L Funds during the last four months of 2015 as compared to the same period in 2014, resulting from automatic enrollment of the new participants in the L Funds.

3. Quarterly Reports.

a. Vendor Financials

Mr. Ahuja provided an assessment of financial and operational health of the Agency's nine key vendors (attached). He stated that he has no concerns that these vendors will be unable to provide the Agency with the services in their contracts, and he went on to highlight the activities of a few of the vendors.

b. Budget Review

Ms. Crowder stated that as of the end of the first quarter of Fiscal Year 2016, the Agency is aligned with its budget allocation projections, with the majority of

allocations supporting recordkeeping functions. See "FRTIB FY 2016 Q1 Budget Review" (attached). Ms. Crowder also noted that the expense ratio in 2015 came in below the five basis points ceiling established by the Board, and she would discuss this in more detail in her report on annual expenses later in the meeting.

c. Project Activity Report

Ms. Vaughn Peck provided an update on the state of the Agency's projects (attached) and highlighted a few changes since the previous report. She noted that the Emergency Management Notification System, which was green (will be completed on time and within budget) last quarter, is now red (behind schedule/over budget) due to some unavoidable issues in the procurement process, but it is expected to be green again next quarter. The Workload Management Initiative turned from yellow (behind schedule/over budget but can recover) to green as deliverables with past due dates have been resolved. SharePoint and Omni System are both yellow and expected to remain yellow, but both projects are expected to deploy on time. Ms. Vaughn Peck also noted that the Public Safety Employee Exemption project has closed and was implemented smoothly.

d. Audit Status

Mr. Ahuja provided an update on Agency audit activity for Fiscal Year 2015. See "FY 2015 External Audit Activity" (attached). Eight audits from the FY 2015 schedule have been completed and another 11 are in progress or scheduled. OERM is also working with the Employee Benefits Security Administration (EBSA) and all Agency offices to schedule audits for FY 2016 and revisit previously established audit closure dates. OERM is also working with all offices to ensure that the Agency has the proper evidence necessary to close audit findings.

4. Annuity Process Audit Report.

Mr. Ahuja summarized EBSA's report on the Performance Audit of the Thrift Savings Plan Annuity Process (attached). He explained that EBSA conducted the field work for this audit at MetLife's offices in Georgia. Mr. Ahuja described the objectives for the audit, which were to determine whether the Agency implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under FERSA and the Agency's regulations; and (3) perform due diligence reviews of the annuity vendor's financial condition and evaluate the financial stability of the annuity vendor at the time of contract award and in subsequent years.

EBSA noted an internal control deficiency, which was labeled as an "other control recommendation" – a level below a fundamental finding – and the Agency is taking steps to correct it.

EBSA also tested compliance of the annuity process with FERSA or Agency regulations and did not find any instances of noncompliance. In addition, EBSA reviewed a finding from a prior audit relating to MetLife's policies and procedures over its deceased annuitants process and determined that finding to be closed.

5. Annual Expense Ratio Review.

Ms. Crowder presented the annual review of administrative expenses for 2015 (attached). She noted that the Plan's administrative expenses have grown from approximately \$168 million in 2014 to \$182 million in 2015. After offsets from statutory and non-statutory forfeitures and TSP loans, net administrative expenses for 2015 were approximately \$123 million. Ms. Crowder stated that average assets have increased from \$284 billion in 2011 to \$428 billion in 2015, and this strong asset growth has resulted in lower expense ratios.

She further explained that due to market conditions this year, the growth in administrative expenses slightly exceeded the growth in assets for 2015, resulting in a slightly higher administrative expense ratio. In 2015, the gross basis points were 4.26 and the net basis points were 2.89, meaning that the net expenses charged to each Plan account were less than 29 cents per \$1,000 invested. Finally, Ms. Crowder noted that most of the Plan's asset growth has come from investment returns, and cash flows into the Plan remain substantially positive.

6. 2016 Calendar Review.

Mr. Long presented the calendar of Board member meetings for 2016 (attached). He noted that since the printing of that calendar, the Agency has learned that the DOL presentation scheduled for April will have to be moved due to a presenter conflict and a personnel discussion will likely be added for November.

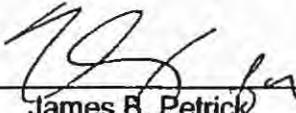
7. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:19 a.m. for executive session.

At 10:20 a.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 10:20 a.m.

MOTION: That this meeting be adjourned.



James B. Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. December 2015 Performance Review – G, F, C, S, I, and L Funds
3. Quarterly Vendor Financial Assessment
4. FRTIB FY 2016 Q1 Budget Review
5. FRTIB Key Activity Report 1st Quarter FY '16
6. FY 2015 External Audit Activity
7. Performance Audit of the Thrift Savings Plan Annuity Process
8. TSP Annual Review of Administrative Expenses
9. FRTIB 2016 Board Member Meetings