



MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 25, 2016

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 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 (telephonically); Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia (telephonically), member; Greg Long, Executive Director; Megan G. Grumbine, Secretary and General Counsel; Ravindra Deo, Acting Chief Operating Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Jim Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Paul Hill, Acting Chief Technology Officer; Sean McCaffrey, Acting Chief Investment Officer; Tee Ramos, Director, Office of Participant Operations and Policy; Renée Wilder Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the June 27, 2016 Board Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the June 27, 2016 Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting that was held on June 27, 2016 be approved.

2. Monthly Reports.

Mr. Long gave opening remarks and summarized the agenda for the meeting. Mr. Long announced that Scott Cragg stepped down as the Chief Technology Officer and stated that Jay Ahuja would serve as the Acting Chief Technology Officer beginning in August, noting that Paul Hill would serve in an Acting role until then. Mr. Long stated that the Agency will conduct a full search to find a permanent Chief Technology Officer. Mr. Long stated that Anne Beemer will serve as the Acting Chief Risk Officer and thanked Mr. Ahuja, Mr. Hill, and Ms. Beemer for their willingness to step up during this period.

a. Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Roth participation continues to grow with 778,481

Roth accounts and balances of 4.8 billion dollars. Uniformed services members while comprising only 23 percent of the total population account for nearly 55 percent of Roth accounts. Hardship withdrawals and loans continue the seasonal trend of rising in the summer and are up nearly 10 percent in July. However, the total projected volumes for 2016 are still 5 percent lower than last year.

Mr. Courtney outlined a new communications strategy that better informs participants about the cost of borrowing against their TSP accounts. Mr. Courtney stated that before participants can access Form TSP-20 to take out a loan, they are prompted to watch a short video that fully explains the costs they may incur. Mr. Courtney showed the video to the Board. Mr. Courtney also highlighted that participants are encouraged to view a video with respect to withdrawals before completing Form TSP-70 to withdraw money from their TSP accounts. Finally, Mr. Courtney referenced another video as part of the Take 5 for your Future campaign, which encourages participants to contribute 5 percent so they can take full advantage of their agency's matching contributions.

b. Legislative Report

Ms. Weaver reported that the Department of Defense bill is in conference and stated that it is possible that it will be finalized in September, though she noted that would be a fairly aggressive timeframe given Congress's schedule. Ms. Weaver stated that the Postal Service Improvement Act of 2016 was introduced last week. This bill would invest 25 percent of money contributed to the Postal Service Retiree Health Benefits Fund in a fund that mimics the TSP's longest range L Fund. This legislation would require the FRTIB's Chairman be one of the fiduciaries to this fund. Ms. Weaver expressed concerns with this bill's requirements for FRTIB's Chairman to serve as a dual fiduciary.

3. Quarterly Reports.

a. Investment Policy Report

Mr. McCaffrey reviewed the monthly investment performance report. See "June 2016 Performance Review – G, F, C, S, I, and L Funds" (attached). For the year to date, BlackRock outperformed by 21 basis points in the F Fund and 36 basis points in the S Fund, primarily due to securities lending and they outperformed by 102 basis points in the I Fund primarily due to the reversal of a fair value adjustment on December 31, 2015. Mr. McCaffrey stated that talk of Brexit dominated market-related news, noting that Brexit refers to the United Kingdom vote to leave the European Union.

For the month of July through Friday's close, the F Fund is ahead by 15 basis points, the C Fund is up 3.74 percent, the S Fund is up 4.71 percent, and the I Fund is up 2.63 percent. These month-to-date returns likely reflect the continued recovery from Brexit, a belief that central banks around the world will continue to be

supportive, and some better sentiment resulting from the solid June employment number released earlier this month.

Chairman Kennedy 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.

Mr. McCaffrey stated that the audit of proxy voting for the first quarter of 2016 found no exceptions to BlackRock's proxy guidelines.

Mr. McCaffrey next drew the Board's attention to the Class Action Settlements report for the first quarter, stating that there were two new claims opened during the quarter and there were no settlements.

b. Budget Review

Ms. Crowder stated that the budget for the third quarter is in alignment with FRTIB's projections and stated that she does not anticipate additional budgetary requests for the end of fiscal year 2016.

4. Target Architecture Plan.

Mr. Deo explained FRTIB's current technological structure and outlined where the Agency will be headed with its Target Architecture Plan (TAP). See "Target Architecture Plan: Presentation to Board Members" (attached). Mr. Deo stated that while the Agency started out with a clean system, over the past 30 years business needs have dictated additional requirements, which has made the structure of the Agency's information technology (IT) system more complicated. Mr. Deo stated that under the current structure the Agency can still functionally operate, but noted that the current IT architecture makes it difficult to continue to add capabilities in a streamlined fashion.

Mr. Deo explained that under the TAP, the Agency will have a centralized Application Programming Interface (API) gateway, which will serve as the sole pathway that every application and program will rely on to function. Mr. Deo stated that having a centralized API repository will reduce complications as the Agency adds capabilities to meet its continued business needs. Mr. Deo stated that although the TAP will be difficult to build, it will be much easier to maintain, noting that it will accelerate the time-to-market for future improvements. Mr. Deo concluded his remarks by stating that the TAP will enhance the Agency's cybersecurity posture.

5. 2017-2021 Strategic Plan – Office of Enterprise Planning.

Ms. Wilder Guerin outlined the Agency's 2017-2021 Strategic Plan. See "Thrift Savings Plan 2017-2021 Strategic Plan and Collision Avoidance" (attached). Ms. Wilder Guerin started her presentation by reviewing several key accomplishments from the Agency's current Strategic Plan. Ms. Wilder Guerin noted that throughout the past few years the Agency has successfully stood up its Enterprise Information Security Risk Management program; built an Enterprise Risk Management Office; completed its Human Capital Plan; and completed its Business Solutions Project. Ms. Wilder Guerin also highlighted six key issues in the Agency's current operating environment: (1) having a legacy IT architecture; (2) addressing cybersecurity threats; (3) legislative mandates; (4) increased audit activity; (5) moderate economic growth; and (6) focusing on retirement readiness and outcomes.

Ms. Wilder Guerin stated that the Agency's mission remains the same – to administer the TSP solely in the interest of participants and beneficiaries – and also stated that the Agency's vision and core values largely remain the same. Ms. Wilder Guerin highlighted that the Agency's Strategic Plan for 2017-2021 will largely focus on three strategic initiatives: (1) identifying, containing, and remediating cyber threats; (2) implementing Blended Retirement before January 1, 2018; and (3) replacing the Agency's legacy hardware and software with a new integrated, secure, and scalable target IT architecture.

For the next three years the Agency will focus on maintaining a steady state; hardening its cybersecurity posture; building a new target IT architecture;

continuing to remediate audit findings; implementing Blended Retirement; and implementing investment operations. Ms. Wilder Guerin noted that within the next three years the Agency may work on other activities, but only to the extent that they do not interfere with IT resources needed to accomplish these key goals.

Ms. Wilder Guerin stated that from 2019 through 2021 the Agency will focus on enhancements and other initiatives such as implementing an enterprise resource planning system; implementing the elements of the Great Place to Work portfolio; and implementing TSP 3D, a new initiative designed to enhance the participant experience by focusing on increased dialogue, delivery, and data.

Chairman Kennedy thanked Ms. Wilder Guerin for her presentation and asked whether the Agency will require additional resources to accomplish these goals. Ms. Wilder Guerin responded that she and other Agency personnel have spent a lot of time thinking about how to accomplish the initiatives outlined in the Strategic Plan as well as the steady-state work that will continue and noted that while additional resources will be needed, Agency staff has already started working on these initiatives. Mr. Long echoed Ms. Wilder Guerin's sentiments and said that Ms. Wilder Guerin will work with Ms. Crowder to address any additional staffing needs in the Agency's FY 2017 budget.

6. Review Internal Audits.

Mr. Creque provided an overview of the Agency's Daily Investment Process Audit. See "Daily Investment Process Audit" (attached). The Audit examined whether the controls in the daily investment processing process are efficient and effective; whether transactions associated with daily investment processing are accurately documented and recorded in a timely manner; and whether the controls within the systems used to process daily investment transactions are properly designed. Mr. Creque stated that the audit resulted in 4 findings and 14 recommendations for internal control and process improvement. Mr. Creque stated that these findings included improving access privileges; automating transactions to reduce the risk of errors; reviewing and reducing the system administrators and contractor support staff with access to the system; and terminating accounts in accordance with Agency policy. Mr. Creque stated that Corrective Action Plan (CAP) dates are scheduled to be implemented by September 2016 and noted that FRTIB's Internal Audit Division will monitor management's implementation of CAPs.

7. Review EBSA Audits.

Mr. Ahuja summarized six audit reports that have recently been issued by the Department of Labor's (DOL) Employee Benefits Security Administration (EBSA). These reports included: (1) Investment Management Operations; (2) Lifecycle Funds Process; (3) Participant Website; (4) Participant Support Operations; (5) Systems Enhancements and Software Change Controls; and (6) IT Operations. Mr. Ahuja highlighted the objectives and scope and summarized the recommendations contained in each of these reports.

First, Mr. Ahuja reviewed the Investment Management Operations audit report, which related to the F, C, S, and I Funds. The objective of this audit was to determine whether BlackRock deposited, invested, and processed TSP transactions in an accurate and timely manner. Mr. Ahuja stated that the audit reported no prior recommendations and the current audit produced no new recommendations. Second, Mr. Ahuja reviewed the Lifecycle Funds audit. The objective of the audit was to determine whether the Agency implemented certain procedures with respect to the L Fund. The audit noted no prior recommendations requiring follow up and resulted in one new recommendation related to controls over the administrative account management. Specifically, the finding focused on access management controls for administrative accounts.

Third, Mr. Ahuja summarized the Participant Website audit, which examined whether the Agency had implemented certain procedures relating to resetting participant passwords, monitoring threats to participant data, and securing participant communications. The audit resulted in seven new recommendations, including recommendations to address weaknesses in access management and configurations needed to further secure the website. Fourth, Mr. Ahuja reviewed the Participant Support audit, which examined whether the Agency implemented procedures to communicate with participants about a variety of participant-focused matters. This audit resulted in 17 new recommendations including recommendations to strengthen technology controls such as encryption, logical access controls, and configuration and patch management.

Fifth, Mr. Ahuja summarized the Systems Enhancement and Software Change Controls audit, which focused on whether the Agency implemented procedures with respect to applications and software. The audit resulted in five new recommendations, which included recommendations to strengthen segregation of duties related to software changes, legacy infrastructure, and to better document change control records. Finally, Mr. Ahuja reviewed the IT Operations audit, which examined the Agency's procedures with respect to the Agency's overall IT operating environment. The audit resulted in eight new recommendations, including recommendations to strengthen database administration and information sharing procedures.

At the end of the presentation and in response to a question from Mr. Jones, Mr. Ahuja stated he would follow up on how many audit recommendations the Agency considers to be closed and how many remain open.

8. Department of Labor Presentation.

EBSA gave a presentation on its Fiduciary Oversight Program of the TSP for FY 2016. See "U.S. Department of Labor, Employee Benefits Security Administration Fiscal Year 2016 Thrift Savings Plan Fiduciary Oversight Program" (attached). Mr. Dingwall began the presentation by highlighting the key contacts on the oversight team and stated that EBSA primarily focused on IT-related audits in FY 2016. Mr. Dingwall stated that the team is still trying to finalize audits from FY 2015 and

explained that delays to the 2015 planned audit schedule impacted the timing of both 2015 and 2016 performance audits. Mr. Dingwall thanked the Board and Mr. Long for treating audits as a high priority and stated that FRTIB's staff have been particularly responsive to audit activity over the past year. Ms. Flanagan, a member of the audit team who works for KPMG, reviewed the remaining FY 2015 audits and gave a brief overview of the FY 2016 audits. Ms. Flanagan highlighted a few FY 2016 audits that have not yet begun. Ms. Flanagan concluded by stating that the Agency closed 15 audit recommendations and received 48 new recommendations as part of the audits that EBSA completed as of July 15, 2016.

Mr. Dingwall expressed concerns about the Agency's cybersecurity posture, noting that his concerns were outside the scope of EBSA's audit activity. Mr. Dingwall stated that these concerns will likely impact the scope of their FY 2017 audit program. Mr. Dingwall concluded by stating that he understands the Agency has a high interest in resolving existing findings and that he has a good working relationship with Mr. Ahuja.

9. Closed Session.

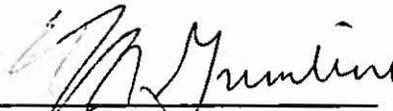
On a vote taken by the Chairman, the members closed the meeting at 10:06 a.m. for executive session.

At 11:05: a.m., upon completion of the executive session, the members reconvened the open portion of the meeting.

10. Adjourn.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 11:05 a.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. June 2016 Performance Review – G, F, C, S, I, and L Funds
3. Target Architecture Plan: Presentation to Board Members
4. Thrift Savings Plan 2017-2021 Strategic Plan and Collision Avoidance

5. Daily Investment Process Audit
6. U.S. Department of Labor, Employee Benefits Security Administration Fiscal Year 2016 Thrift Savings Plan Fiduciary Oversight Program