

MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 31, 2016

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 31, 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. 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; Ravindra Deo, Acting Chief Operating Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; Jim Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Jay Ahuja, Acting Chief Technology Officer; Anne Beemer, Acting Chief Risk 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 September 19, 2016 Board Meeting

Chairman Kennedy entertained a motion for approval of the minutes of the September 19, 2016 Board 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 19, 2016 be approved.

2. Monthly Reports

Mr. Long gave opening remarks, and indicated that the meeting would cover the monthly reports, investment manager services review, quarterly budget and audit status reports, an update on the internal audit charter, mid-year financial audit, and Office of Resource Management annual report.

a. Monthly Participant Activity Report

Mr. Ramos provided an overview of the Monthly Participant Activity Report. See "Thrift Savings Fund Statistics" (attached). The civilian participation rate remained steady at 89.3 percent, and the uniformed services participation rates remained at 44.9 percent.

b. Legislative Report

Ms. Weaver remarked that Election Day was one week away and that OEA would keep the Board apprised of any legislative activity when Congress returns.

c. Monthly Investment Performance and Policy Report

Mr. McCaffrey reviewed the fund performance memorandum entitled "September 2016 Performance Review – G, F, C, S, I, and L Funds" (attached). During September, BlackRock's performance for the F, C, S, and I Funds was in line with benchmarks. BlackRock's performance for the funds on a year-to-date basis through September 30 is ahead of benchmarks. They outperformed in the F Fund by 24 basis points (primarily due to securities lending), in the C Fund by 6 basis points, and in the S Fund by 46 basis points (also due to securities lending). BlackRock's year-to-date performance for the I Fund is 112 basis points ahead of benchmark (primarily due to the reversal of a fair value pricing adjustment on December 31, 2015).

Chairman Kennedy entertained the motions to reaffirm current G, F, C, S, and I Fund investment policies. The Board members made, seconded, and adopted the following recommendations by unanimous vote:

MOTION

That the Board reaffirm the current G Fund policy of investing solely in short-term maturities without change.

MOTION

That the Board reaffirm the current F, C, S, and I Fund investment policies without change.

3. Investment Manager Annual Services Review

Mr. Long introduced Lilian Wan of BlackRock, Inc. Ms. Wan began by introducing her colleagues from BlackRock in attendance at the meeting, beginning with BlackRock chairman and CEO, Larry Fink. Ms. Wan reviewed the performance of the C, F, S, and I Funds, assisted by Richard Prager, Amy Schioldager, Scott Radell, and Mark McCombe. She then summarized BlackRock's investment management philosophy and its awareness of the global

economic and political environment, noting that the company's size and reach allow for liquidity access and best execution, which is still the standard for all transactions. Mr. Fink discussed global central bank behaviors and the intersection of government and global markets, domestic economic trends, the adoption of index strategies and individual retirement investment, and the recent DOL fiduciary standard rule.

Chairman Kennedy asked about how institutional investors that are not pension plans are showing similar shifts to index investing. Mr. Fink explained that every institutional client is using some form of indexation, as are most sovereign wealth funds. Mr. Jones asked what impact this shift toward indexing would have on market volatility given that a higher volume of trading could yield a step function adjustment. Mr. Fink, Ms. Schioldager, and Mr. Prager explained that step functions are the result of no price discovery, yielding a gap and that the increased volume in trading will not likely affect liquidity. Ms. Bilyeu asked about how to transition away from short-term investing policies back to long-term investing policies. Mr. Fink began his answer by referring to the September 2016 Harvard Business School report "Problems Unsolved and a Nation Divided," which he said pointed to federal government as an obstacle in the future of U.S. competitiveness. Mr. Fink went on to say that bipartisan efforts are needed to create successful long-term policies. Mr. Jasien asked about industry trends in terms of low cost indexing tools for retirees at decumulation. Mr. Fink explained that as people are living longer into their retirement years, there needs to be a cultural shift in the approach to investing for these years as well. He highlighted BlackRock's "iRetire" manager tool that calculates for long-term retirement needs. Chairman Kennedy asked about best practices in the DC industry. Mr. McCombe pointed to the use of technology in helping employees achieve the right risk allocation as they approach their retirement date. Chairman Kennedy also asked for an update on the minority brokerage program. Mr. Prager noted that in recent years, the program focus has changed to be more consultative. The program now has 30 different brokerage firms, and in the first nine months of this year, 20 percent of all transactions are now done with the emerging broker community.

4. Quarterly Reports

d. Budget Review

Ms. Crowder reviewed 4th quarter spending for the FY 16 budget. Execution was at 97 percent as of September 30, 2016. Just over \$7 million remained of the \$219.9 million budget. \$2 million was held in reserve for payroll and the remaining contingency fund will be held for existing contract actions.

e. **Audit Status**

Ms. Beemer provided an update on improvements to the audit engagement process, highlighting new personnel hired for audit remediation, a new review process, the increase in audit findings resulting from increased audit activity and their effect on the Agency's initiative to close open audit findings. Mr. Ahuja summarized the status of open IT-related audit findings.

5. **Internal Audit Charter Update**

f. **Internal Audit Charter Update**

The Internal Audit Division presented an overview of four proposed updates to the Internal Audit Charter (presentation attached). The Board members made, seconded, and unanimously adopted the proposed changes.

g. **Lockbox Operations Audit Report**

Internal Audit also presented the findings of its annual Lockbox Operations audit. The audit resulted in no findings, but identified three recommendations for to enhance current processes: OPOP should work with the Bureau of the Fiscal Service at the Treasury Department to monitor U.S. Bank and ensure requirements are satisfied, including information received from U.S. Bank on rejected payments into the Participant Services Record System, and having OCFO provide additional information to support secondary review processes and lockbox transactions.

6. **Mid-Year Financial Audit.**

Mr. Thomas Rey, Principal, introduced CliftonLarsonAllen's (CLA) mid year financial report. See "Independent Auditors' Review Report" (attached). The midterm review covered The Thrift Savings Fund Financial Statements for the Six Months Ended June 30, 2016 and June 30, 2015. CLA was not aware of any material modifications that should be made to the interim financial information for it to be in conformity with generally accepted accounting principles. No opinion on internal controls was expressed. CLA concluded their presentation by summarizing prior recommendations.

7. **Office of Resource Management Annual Report**

Ms. Goethe provided an administrative services and human capital

update. ORM implemented education and training program for records coordinators and continues with their 3-year plan to train other employees on records management responsibilities. PIVs have been issued and activated (for physical access) to all FRTIB Federal employees. In FY 2016, FRTIB had 245 employees on board. The approved staffing level for FY 2016 was 271. While staffing has increased, so has the attrition rate – increasing from 7 percent in FY 2015 to 12 percent in FY 2016. Approximately 2/3 of employees who leave FRTIB agree to a voluntary exit interview, which reveal that reasons for leaving include finding jobs closer to their homes, promotional opportunities, and changing careers. Ms. Goethe also reviewed the Federal Employee Viewpoint Survey (FEVS) 2016 Results, which showed that FRTIB employees rate their leadership, supervisors, and intrinsic work experiences higher than the government wide average.

8. Executive Session

On a vote taken by the Chairman, the members closed the meeting at 11:20 a.m. EDT for Executive Session.

9. Adjourn

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 1:22 p.m. EDT.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. September 2016 Performance Review –G, F, C, S, I, and L Funds
3. BlackRock presentation: Federal Retirement Thrift Investment Board Thrift Savings Plan
4. FRTIB FY 2016 Q4 Budget Review
5. Audit Remediation and Internal Audit Charter
6. Lockbox Operations Audit

7. CliftonLarsonAllen presentation: Interim Audit Review
8. Thrift Savings Fund Financial Statements (as of June 30, 2016 and June 30, 2015)
9. ORM Update