



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 23, 2017

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 23, 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 (by telephone); David A. Jones of Connecticut, member; William S. Jaslen 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; Miriam Settles, Deputy 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 C. Wilder Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the December 19, 2016 Board Member Meeting.

After opening remarks, Chairman Kennedy entertained a motion for approval of the minutes of the December 19, 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 December 19, 2016 be approved.

2. Thrift Savings Plan (TSP) Activity Report.

Mr. Long gave opening remarks noting that there would be the standard monthly reports, a review of the annual expenses, and an update on the implementation of the new blended retirement system for members of the uniformed services.

a. Monthly Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Mr. Ramos noted that the TSP received 3,500 rollovers representing over one billion dollars in assets. The rollovers were a 6 percent increase from the previous year. He also noted that the number of participant accounts were over 5 million and that the plan had \$495 billion in assets under management. Finally, Mr. Ramos noted that the hardship withdrawal volume for 2016 was 5 percent

lower than last year and the average participation rate for both FERS and Uniformed Services ended 2016 at historic highs.

b. Legislative Report

Ms. Weaver reported that the Office of External Affairs has been monitoring the new presidential administration's executive actions. She noted that the White House has issued a request that all regulations be reviewed by a new presidential appointee before publication.

3. Quarterly Reports.

a. Investment Policy Report

Mr. McCaffrey reviewed the monthly investment performance report. See "December 2016 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey indicated that during the month of December, BlackRock's performance for the F, C, S, and I Funds was in line with benchmarks. Mr. McCaffrey also indicated that for the full year, BlackRock outperformed in the F Fund by 30 basis points, in the C Fund by 9 basis points, and in the S Fund by 63 basis points. He noted that this full year outperformance was driven primarily by securities lending for the three funds. He also noted that BlackRock's full year performance for the I Fund was 118 basis points ahead of the benchmark, primarily due to the reversal of a fair-value pricing adjustment on December 31, 2015.

Mr. McCaffrey stated that expectations for better U.S. economic growth have led treasury yields, equity markets, and dollar strength to trend higher. However, Mr. McCaffrey also noted that with the New Year, market direction appears a little less certain. Despite the uncertainty, each of the funds has seen positive returns month-to-date: the F Fund is up 5 basis points, the C Fund is up 1.54 percent, The S Fund has gained 1.29 percent, and the I Fund has gained 2.12 percent.

Finally, Mr. McCaffrey noted that the audit of proxy voting for the third quarter of 2016 found no exceptions to BlackRock's proxy guidelines. Mr. McCaffrey reported on class action settlements for the third quarter and noted that there were 12 new claims opened during the third quarter of 2016 and 2 that were closed due to being found ineligible. Mr. Long then noted that there was no fair-value adjustment at the end of 2016.

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, 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.

b. Budget Review

Ms. Crowder presented the quarterly budget review. See "FRTIB FY 2017 Q1 Budget Review" (attached). Ms. Crowder noted that the Agency has executed roughly 46.5 percent of its execution plan for the 2017 fiscal year budget, which is on target.

4. Annual Expense Ratio Review

Ms. Crowder gave a presentation on the annual expense ratio review. See "TSP Annual Review of Administrative Expenses As of 12/31/2016" (attached). She began her discussion by noting that the average net assets against which administrative expenses are applied grew steadily to approximately \$447 billion, which is a 4 percent rate of growth. The gross administrative expenses rose to approximately \$232 million in 2016 from \$182 million in 2015. Ms. Crowder noted that this increase was driven by recordkeeping enhancements, cybersecurity, and staff augmentation.

Ms. Crowder noted that the impact loan fees and forfeitures have had on the administrative expense ratio were in alignment from the prior years and the gross and net administrative expense ratios grew by 1 basis point from 2015 to 2016. The primary reason for that increase is that the budget growth is outpacing the asset growth at this point in time. After a discussion with Board Member McCray, Ms. Crowder noted that with loan fees and forfeitures, the net administrative expenses were 3.8 basis points for the year.

Chairman Kennedy noted that although he understands the flexibility needed in budgeting with current projects, he would like to return to a 5 basis points limit on the gross administrative expense ratio in the long-term. Answering a question from Board Member Bilyeu, Mr. Long noted that he does not anticipate a negative cash flow into the plan at this point. Finally, after discussion with Board Member Jasien, Mr. Long noted that the influx of participants due to the new blended retirement system will initially increase the expense ratio in the short-term but decrease it in the long-term.

5. Blended Retirement Update

Thomas Emswiler, Senior Advisor for the Uniformed Services, provided an update on where the Uniformed Services are in regards to implementing the new blended retirement system. See "Blended Retirement Project" (attached). Currently, the Uniformed Services' programming is on schedule and the Agency is in communication with the services to begin testing the new IT updates. Additionally, the Agency has been helping the services in the development of their educational materials. Finally, Mr. Emswiler had a discussion with Mr. Long about maintaining a suitable post-separation retention rate for members of the Uniformed Services.

Tanner Nohe, Project Manager for the blended retirement project, provided an update on the Agency's implementation of the new blended retirement system. The IT plan has 4 phases, 3 of which have started. The first phase, L Fund Default, is entering testing this week, which is on schedule. The other 3 phases are also on schedule in their development and programming. Mr. Nohe noted that the project team received the first round of the capacity study which included a study on the Interactive Voice Response, the automated telephone system, and the web. The results of the study were very favorable. Mr. Nohe also noted that the project team is expecting another report on February 3rd which tests the Agency's remaining applications.

Mr. Nohe explained that on the non-IT side of the project, the project team is ahead of schedule on the communications update and that OGC has started the process of updating the regulations. Mr. Nohe noted that the KPMG audit of the project has been smooth and discussed some of the risks to the project.

6. Adjourn.

After a vote taken by the Chairman, the members closed the meeting at 8:58 a.m. for executive session.

At 10:37 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 10:37 a.m.

MOTION: That this meeting be adjourned.


Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. December 2016 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB FY 2017 Q1 Budget Review
4. TSP Annual Review of Administrative Expenses As of 12/31/2016
5. Blended Retirement Project