



MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 23, 2017

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 23, 2017, 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. Jasien of Virginia, member; Ravindra Deo, Executive Director and Chief Investment Officer; Megan G. Grumbine, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer, Deputy Executive Director, and Acting Chief Technology 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; Tee Ramos, Director, Office of Participant Services; 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 September 18, 2017 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the September 18, 2017 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 September 18, 2017 be approved.

2. Monthly Reports.

Mr. Deo gave opening remarks, including a brief summary of the agenda for the meeting.

a. Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics & Highlights" (attached). Mr. Ramos noted that the uniformed service active duty participation rate increased again to a new high of 48.3 percent. There was a marginal decrease in FERS participation to 89.8 percent in contrast to steady increases for most of the year, and a similarly small decrease in CSRS participation from 73.4 percent to 72.3 percent. Approximately 1000 hardship

withdrawals were processed last month due to Hurricanes Harvey and Irma. In spite of this recent uptick in hardship withdrawals, overall hardship withdrawals are down 12 percent from August 2017. Mr. Ramos reported on the new IRS contribution and catch-up limits for 401(k) plans, at \$18,500 and \$6,000, respectively. Mr. Ramos ended his presentation by discussing recent participant inquiries about how FRTIB will respond to the Equifax data breach. Pointing to the Agency's recent IT modernization efforts, Mr. Ramos explained that OPS is continuously looking at ways to improve the safety of participant accounts and is actively reviewing participant validation criteria in light of recent developments.

b. Legislative Report

Ms. Weaver reported that the withdrawal legislation, introduced by Representatives Cummings and Meadows, has passed in the House. She noted that both the House and Senate have passed divergent budget resolutions. As such, it remains to be seen how provisions such as the proposed federal retirement benefit cuts in the House version, will be reconciled.

3. Investment Manager Annual Services Review

Mr. Deo introduced Lilian Wan, FRTIB relationship manager at BlackRock, Inc. Ms. Wan introduced her colleagues from BlackRock in attendance at the meeting, beginning with BlackRock chairman and CEO, Larry Fink. Assisted by Richard Prager, Manish Mehta, and Scott Radell, Ms. Wan reviewed the performance of the C, F, S, and I Funds. She began by briefly noting how much had changed in the world since BlackRock's last FRTIB annual review. Since October 2016, Ms. Wan noted that a new U.S. president was elected, the British government began its withdrawal from the EU, FY 2018 started under a continuing resolution, and Japan is emerging from the stagnant economy of its Lost Decades. Through all of this global change, she highlighted that BlackRock's investment management philosophy to manage returns, risks, and costs as a fiduciary with the enormous responsibility to improve their clients' futures has not wavered.

Mr. Fink echoed Ms. Wan's comments on fiduciary responsibility, observing that to be a fiduciary to clients worldwide, BlackRock has to be more local than ever before. He went on to discuss the intersection of government and global markets, where a fear of uncertainty underlines recent economic trends. Mr. Fink concluded his remarks by highlighting the optimism of long-term investing.

Mr. Fink next answered Board member questions on topics of cybersecurity, cryptocurrency, and best practices in the financial services industry. In response to Chairman Kennedy's questions on the progress of the emerging firm initiative and ESG trends, BlackRock shared that progress with the initiative on increasing minority-owned firm participation has increased and that BlackRock continues to look for ways to quantitatively analyze ESG factors in investing.

4. Quarterly Reports.

c. Investment Policy

Mr. Deo reviewed the fund performance memorandum entitled "September 2017 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo reported that for the month of September, BlackRock's performance across the F and C Funds was in line with the benchmark. BlackRock outperformed by 4 basis points in the S Fund due to a combination of securities lending, sampling and futures mis-tracking. BlackRock also outperformed in the I Fund by 3 basis points due to tax reclaims.

He went on to share that for the first 9 months of the year BlackRock has outperformed the F Fund benchmark by 25 basis points and the S Fund benchmark by 12 basis points, both primarily due to securities lending. The outperformance of 37 basis points in the I Fund this year has been driven primarily by tax reclaims. BlackRock was essentially in line with benchmark in the C Fund.

Bond yields and stocks both rose during the month on optimism and evidence of economic growth. Energy and financials showed particular strength and utilities and consumer staples were weak. The F Fund fell as rates rose by about 20 basis points.

For October month-to-date through Friday, October 20, the F Fund is down by 11 basis points, the C Fund is up 2.31%, the S Fund is up 1.61% and the I Fund is up 1.26%. The L Funds all had positive returns for the month and the first 9 months of the year. The L Fund now has more than \$100 billion in participant assets as of September 2017.

Mr. Deo noted that BTC had one exception to its proxy voting. This was the first exception, and there was no impact on the Fund or the vote. In response to Chairman Kennedy's request for additional information on the proxy vote, Ms. Wan explained that at times, BlackRock uses an independent third party to vote proxy in cases where there could be a potential conflict of interest (e.g., BlackRock is on the company board, the BlackRock Director is CEO of another company with BlackRock stock held in index portfolios, etc.). In this instance, a third party proxy was used to vote because PNC is minority shareholder of BlackRock, with approximately 20 percent. PNC is also a bank holding company subject to the Bank Holding Company Act. BlackRock, however, is not subject to that Act. As such, and consistent with regulations that require BlackRock's to conduct business accordingly, BlackRock does not vote for U.S. banks when it comes to such annual meetings. The independent third party cast its vote against. Ultimately, however, there was no difference in outcome based on that single vote.

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.

d. Budget Review

Ms. Crowder reviewed 4th quarter spending for the FY 17 budget. See "FRTIB FY 2017 4th Quarter Budget Review" (attached). Execution was at 98 percent, with just over \$5 million remaining of the \$257.2 million budget.

e. Audit Status

Mr. Ahuja provided an update on audit findings remediation activity, sharing numbers that showed OTS with the majority of open audit findings by program office in FY 2017, and discussing the upcoming audit schedule for FY 2018. See "Audit Findings Remediation Activity" (attached).

5. Mid-Year Financial Review.

Ms. Michelle Chalmers and Mr. David Scaffido introduced CliftonLarsonAllen's (CLA) mid-year financial review. See "FRTIB – Thrift Savings Fund" and "FRTIB – Thrift Savings Fund Status of Prior Recommendations" (attached). The midterm review covered The Thrift Savings Fund Financial Statements for the six months ended June 30, 2017. 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.

6. Office of Resource Management Annual Report.

Ms. Goethe presented an overview of the Office of Resource Management (ORM). See "ORM Update" (attached). She began by highlighting the ORM functional statement, which focuses on Agency mission and employee support. She briefly reviewed the divisions and offices within ORM. In her Administrative Services Division update, Ms. Goethe shared the status of contractor staff PIV initiative, giving kudos to her staff for their extensive fieldwork. She also gave a brief update on ongoing records management efforts.

The Human Capital update included a review of the expanded Executive Coaching Program, competency model development, five completed office reorganizations, and a training needs assessment. Ms. Goethe also discussed the Agency's Federal Employee Viewpoint Survey results for 2017. The decline in the FRTIB

scores were in areas of employee satisfaction with the agency, individual jobs, and intrinsic work experiences, all of which lead to a decline in the percentage of employees who would recommend FRTIB as a place to work. In response to this dip in workforce morale, ORM will look into the root causes of the survey results so that leadership may respond accordingly. Member Jasien requested a report on ORM's plan to address the survey results.

7. Office of Enterprise Planning Annual Report.

Ms. Wilder Guerin presented the Office of Enterprise Planning (OEP) annual report. See "Office of Enterprise Planning" (attached). She began with an overview of the OEP functional statement, which focuses on strategy and project management, offices, and key initiatives. Among OEP's myriad accomplishments in 2017 is the FRTIB Participant Satisfaction Survey. See "2017 FRTIB Participant Satisfaction Survey: Internal Preview" (attached). This 5th administration of the participant survey had a 17 percent response rate – up from 11 percent in 2013. Findings revealed that almost 90 percent of participants are satisfied or extremely satisfied with TSP overall. The survey responses also showed that participants are least satisfied with flexibility of withdrawal options and inability to transfer into TSP.

8. Blended Retirement Update.

Thomas Emswiler provided a report on the Blended Retirement project. See "FRTIB Blended Retirement" (attached). He noted that two months remain until BRS goes live. He also highlighted the Department of Labor audit of BRS implementation, which is near completion.

Tanner Nohe provided an update on project status, noting that all phases of IT testing are now complete. Over the next 8 weeks, regulations will be published and the final web updates will be complete.

9. IT Update.

Ms. Tosini provided an update on IT initiatives. See "IT Update" (attached). Of the twelve high-priority initiatives, she noted that most will be implemented by November 2017, with the remaining few scheduled to be finished in March 2018. Ms. Tosini noted that the next set of IT initiatives will be identified over the next two months.

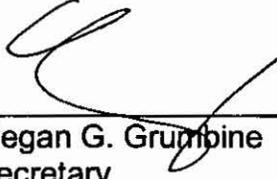
10. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 12:14 p.m. for executive session.

At 12:37 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 12:48 p.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics & Highlights
2. September 2017 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB FY 2017 4th Quarter Budget Review
4. Audit Findings Remediation Activity
5. FRTIB – Thrift Savings Fund
FRTIB – Thrift Savings Fund Status of Prior Recommendations
6. ORM Update
7. Office of Enterprise Planning
2017 FRTIB Participant Satisfaction Survey: Internal Preview
8. FRTIB Blended Retirement
9. IT Update