



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 24, 2018

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members by telephone on July 24, 2018, at 12:00 p.m., Eastern Time. The meeting was open to the public at the Board's offices at 77 K Street, N.E. In attendance were Dana K. Bilyeu of Oregon (by telephone), member; Ronald D. McCray of Texas, member (by telephone); David A. Jones of Connecticut, member (by telephone); William S. Jasien of Virginia, member (by telephone); Ravindra Deo, Executive Director (by telephone); Megan G. Grumbine, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer; Renée C. Wilder Guerin, Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs (by telephone); William Jacobson, Deputy Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; Tee Ramos, Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer (by telephone); Vijay Desai, Chief Technology Officer (by telephone); and Ernest Witherspoon, Executive Officer to the Executive Director.

1. Approval of the Minutes of the June 25, 2018 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the June 25, 2018 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 June 25, 2018 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" (attached). Mr. Ramos noted that in June 2018, the total number of plan participants exceeded 5.3 million. Mr. Ramos added that for June 2018, the FERS participation rate and the uniformed services participation rate for active duty members remained steady at 90.7 percent and 52.8 percent respectively.

Mr. Ramos reported that the written correspondence unit exceeded its service level for June, answering 91.3 percent of correspondence within four business days, and that all contact center units are meeting their service level requirements.

Finally, Mr. Ramos noted that while there have been news reports about the lost participant issue affecting the Agency's annuity provider, this issue involved a different product line and the Agency is unaffected.

b. Legislative Report

Ms. Weaver reported that companion bills were introduced by Senator Whitehouse and Congressman Langevin which would require a corporate responsibility investment option in the Plan. Ms. Weaver noted that these bills have been introduced in previous Congresses but have not moved.

Ms. Weaver stated that Senator Merkley introduced the American Savings Account Act which would create a retirement savings account option for individuals who do not have access to employer-sponsored retirement plans. The legislation would establish a board of directors and would require the Agency's Executive Director and three members of the Agency's Board to serve on the board. Ms. Weaver explained that serving on both boards could create ethical and fiduciary issues, and that the Agency will share these concerns. Ms. Grumbine added that as Special Government Employees, the Agency monitors the number of days Board members work, and that this would likely be impacted if Board members are required to serve on a second board.

3. Quarterly Reports.

a. Monthly Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "June 2018 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for the month, BlackRock's performance for the F, C, and S Funds was in line with indices, while its performance for the I Fund exceeded the benchmark by 3 basis points primarily due to tax effect and futures.

For the year to date, BlackRock's performance for the F Fund is ahead of the benchmark by 8 basis points, primarily due to securities lending; the S Fund is ahead of the benchmark by 12 basis points, primarily due to securities lending and security selection; and the I Fund is ahead of the benchmark by 35 basis points, primarily due to tax effect. Mr. McCaffrey reported that the C Fund's performance is in line with its benchmark.

Mr. McCaffrey noted that much of investors' attention was drawn to the strong economy and trade tensions. U.S. equities achieved modest gains, leading to corresponding increases in the C and F Funds. Small losses in international equities were magnified by a strengthening dollar that caused the I Fund to move lower. The F

Fund reported a small loss that was influenced by higher interest rates. Mr. McCaffrey also noted that the Federal Reserve raised its target interest rate range by a quarter of a percent during the month. Finally, all the L funds finished with slight gains.

Mr. McCaffrey reported that for the month of July through Monday's close, the C and S Funds are up 3.36 percent and 3.09 percent, respectively. The I fund is up by 1.13 percent, and the F Fund has a loss of 0.19 percent.

Mr. McCaffrey stated that all L funds reported gains both for the month of June and year to date, while returns are more mixed across the individual funds, attributable to the L Funds' more diversified asset class profiles that help to steady returns. Mr. McCaffrey also noted an increase in inter-fund transfer activity into the S Fund in June.

Finally, Mr. McCaffrey presented quarterly updates. Mr. McCaffrey reported that an audit of BlackRock's proxy voting found no exceptions to BlackRock's established guidelines for the first quarter of 2018. Mr. McCaffrey also reported on class action settlements for the first quarter of 2018. There were 38 claims open at the start of the quarter. During the quarter, 12 claims were opened, eight were closed, four of these due to administrative reasons and four due to settlements. At the end of the quarter 42 claims were open, and settled claims amounted to 241,000 dollars, mostly in the C Fund.

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.

Mr. McCaffrey concluded his report by noting that BlackRock Trust Company made the decision to change its custodian from State Street to JPMorgan after a very extensive RFP process. BlackRock Trust Company itself serves as the custodian for the TSP funds that it manages and State Street has been its sub-advisor. Out of an abundance of caution, the Agency asked BlackRock to keep the Agency apprised of the transition's progress to the new custodian. Mr. McCaffrey reported that the C Fund and S Fund transitions were concluded in April, the I Fund's transition will conclude in July, and the F Fund's transition will be completed by the end of August.

b. Budget Review

Mr. Jacobson presented the 3rd Quarter Budget Review. See "FRTIB FY 2018 3rd Quarter Budget Review" (attached). Mr. Jacobson reported that the Agency's spending is on target; the spend plan target for the first three quarters was 255 million dollars, and actual spending to date is approximately 240 million dollars. Mr. Jacobson reported that the bulk of spending was on recordkeeping, and that gross administrative expenses are budgeted at 309.7 million dollars for Fiscal Year 2018.

c. Audit Finding and Remediation Activity

Mr. Ahuja provided a quarterly update on the status on the Agency's open audit findings. See "Audit Findings and Remediation Activity" (attached). Mr. Ahuja presented the audit activity from two perspectives: one from the auditors, and one from the Agency. From the auditors' perspective, the Agency began 2017 with 275 audit findings, and ended the third quarter with 419 audit findings. From the Agency's perspective, the Agency began 2017 with 247 audit findings, and ended the third quarter with 346 audit findings.

Mr. Ahuja then reported that compared with past years, the Agency showed an increasing closure rate in 2017, and noted that the Agency hopes to increase the pace of the closure of audit findings.

Mr. Ahuja then presented a summary of external audit activity, noting that in Fiscal Year 2017, the Agency was subject to 15 audits, and in Fiscal Year 2018 the Agency was subject to 24 audits. Fourteen of these audits have been completed, nine are in progress, and one will begin in July.

4. Enterprise Risk Management Update.

Mr. Ahuja presented a status update on the Enterprise Risk Initiative. See "Enterprise Risk Management Status Update" (attached). Mr. Ahuja stated that the Agency, in November 2017, had reported its top five risks: Information Security, Disaster Recovery, Business Continuity, Insider Threat, and Configuration Management. The Office of Enterprise Risk Management (OERM) worked with the relevant offices to develop risk treatment plans for all five risks in 2018. Mr. Ahuja presented the targeted completion date and the number of completed milestones for all five risks and reported that all risk treatment plans were currently on target.

Mr. Ahuja then described OERM's planned activities for the rest of the year. In December, OERM will present a revised dashboard after conducting a full-scale risk assessment of the enterprise. OERM will also be conducting an education and awareness initiative to embed enterprise risk principles within the culture of the organization.

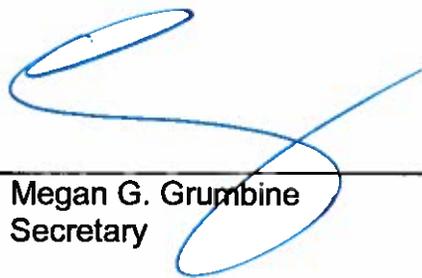
5. IT Update.

Mr. Desai provided an update on IT initiatives. See "IT Update" (attached). Mr. Desai reported that the Trusted Internet Connection initiative is on track to be delivered in August and that the Network Access Control initial visibility phase was completed in July and policies are under development. Mr. Desai noted that the team is continuing to research a longer-term solution for Omni Archiving and that the Agency is working with Microsoft on the Active Directory modernization to create a new Active Directory. For the Wide Area Network (WAN) upgrade, the Agency has awarded contracts to two vendors who are working to update the WAN circuits. Mr. Desai also reported that the proofs of concept for the Case Management System have been presented to the relevant offices. Finally, Mr. Desai noted that the Windows 2008 Server upgrade to Windows 2012 Server is 23 percent complete and the Agency has paused the upgrade in order to upgrade to Windows 2016 Server and skip Windows 2012 Server.

Adjourn.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 12:34 p.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

- 1. Thrift Savings Fund Statistics**
- 2. June 2018 Performance Review – G, F, C, S, I, and L Funds**
- 3. FRTIB FY 2018 3rd Quarter Budget Review**
- 4. Audit Findings and Remediation Activity**
- 5. Enterprise Risk Management Status Update**
- 6. IT Update**