



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

March 26, 2018

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on March 26, 2018, 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 (by telephone); Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Ravindra Deo, Executive Director; Megan G. Grumbine, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer; Vijay Desai, Chief Technology Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Miriam Settles, Deputy Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Sean McCaffrey, Chief Investment Officer; Sophie Dmuchowski, Deputy Director, Office of Participant Services; Renée W. Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Officer to the Executive Director.

1. Approval of the Minutes of the February 26, 2018 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the February 26, 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 February 26, 2018 be approved.

2. Monthly Reports.

Mr. Deo gave opening remarks, including a brief summary of the agenda and an introduction of the Agency's new Chief Technology Officer (CTO), Vijay Desai, who comes to FRTIB after 5 years of various roles at Consumer Financial Protection Bureau, including Chief Information Officer (CIO), and prior to that, 15 years as a management consultant at Booz Allen. Mr. Deo also thanked Suzanne Tosini for her great work as Acting CTO.

a. Participant Activity Report.

Ms. Dmuchowski began a discussion of the monthly Participant Activity Report. See "Thrift Savings Fund Statistics" (attached). Ms. Dmuchowski noted that the FERS and the active duty participation rates have increased to 90.4% and 49.4%

respectively. Hardship withdrawal numbers have returned to normal levels following the hurricane hardships and California fires. Ms. Dmuchowski stated there has been a higher number of post-separation withdrawals than normal. High call volume and effects of security and technology cutovers are still affecting call center handle times.

Lastly, Ms. Dmuchowski noted February service levels increased for phone and e-messages, and due to the deployment of additional staff, call abandonment has decreased.

b. Monthly Investment Performance Report.

Mr. McCaffrey reviewed the monthly Investment Performance Report. See "February 2018 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey reported that for the month of February, performance for the F, C, and S Funds was in line with the benchmark. Performance for the I fund was behind the benchmark by 55 basis points, primarily due to a fair value pricing adjustment on February 28th.

Mr. McCaffrey noted despite the continued positive global economic backdrop, investors likely were influenced by concerns about the possibility of inflation and higher interest rates as well as an unusual spike in volatility. Higher interest rates pushed the F Fund to a loss. The equity sell off from the early part of the month never fully reversed, leaving the C, S, and I Funds to close the month with losses. The I Fund's progress was further hindered by an increase in the dollar's value relative to other currencies. For the current month through the close on Friday, March 23, equities are in a negative position. The C Fund has lost 4.51%, the S Fund is behind by 0.68%, and the I Fund is down 3.05%. In fixed income, the F Fund has returned 0.12%.

Mr. McCaffrey continued his report stating that all of the L Funds also experienced losses for February; however, they fared better than the individual equity funds because of their more diversified asset class profiles. February saw an increase in net interfund transfers out of equity funds, largely into the G Fund, however, the magnitude of transfers for February did not rise to a level of concern.

Lastly, Mr. McCaffrey pointed out the impact from Blended Retirement enrollments, which is primarily seen as an increase in L Fund 2050 ownership, and which will likely increase again in March and April as the Plan moves from initial opt-ins to those who have been auto-enrolled.

c. Legislative Report.

Ms. Weaver reported that the FY18 omnibus was signed Friday, March 23rd, which ensured government funding through September. Congress will now turn their attention to FY19 budgeting.

3. Vendor Financials.

Mr. Ahuja presented an update on the quarterly analysis of the financial and operational metrics of key Agency vendors. See "Quarterly Vendor Financial Assessment—4th Quarter 2017." Mr. Ahuja has determined there is no concern in terms of Agency vendors' ability to provide key services.

4. Office of External Affairs (OEA) Annual Report.

Ms. Weaver presented the Office of External Affairs (OEA) Annual Report. See "Office of External Affairs Report Presentation" (attached). Ms. Weaver stated OEA's mission is to develop and manage external communications, including strategies directed towards Congress, Employee Thrift Advisory Council (ETAC), the media, and other federal agencies. Ms. Weaver noted the Agency is subject to oversight from the Homeland Security and Governmental Affairs Committee and the Committee on Oversight in Government Reform.

Ms. Weaver outlined seven statutes that have affected the TSP over the past 5 years. Ms. Weaver stated that OEA is tracking 20 pending bills that affect the Agency, the Plan, and participants. The two most important are the President's budget proposal, and a bill that would require members of Congress who make harassment settlements to use their TSP funds to make those payments in lieu of appropriated dollars. That bill has passed the House, and is pending in the Senate.

Board Member McCray asked if the recently passed omnibus would have any effect on the Agency, to which Ms. Weaver stated at first glance there does not appear to be. Board Member Jasien asked if there was any outlook on the current Congress' mindset as it relates to the TSP, Ms. Weaver stated that based on conversations with staff on both sides of the Hill, there is joint concern about the G Fund interest rate changes. Chairman Kennedy asked whether due to Congressional attrition, the current oversight committees are up to speed on the TSP. Ms. Weaver responded by noting that several staff members have continued to support the committee in the face of changes, which has been helpful in terms of continuity.

5. Office of Investment (OI) Annual Report.

Mr. McCaffrey presented OI's Annual Report. See "Office of Investment Annual Review" (attached). Mr. McCaffrey stated the function of OI is to develop and implement investment policy and provide subject matter expertise to the Agency for TSP's investment programs. OI currently has two experienced individuals working as financial analysts, with plans to add another later this year. Mr. McCaffrey noted OI is responsible for maintaining investment policies and procedures, conducting annual

reviews of asset allocation and glide paths for life cycle funds, and the day-to-day supervision of any investment managers contracted on behalf of TSP. Further, OI ensures that funds are invested in accordance with law and applicable policies, and ensuring investment managers are in compliance with their obligations. OI also provides subject matter expertise to the Agency and to the Board.

Mr. McCaffrey stated 2017 was a busy year, which included conducting an investment option review. OI did a study on the merits of applying a through-retirement approach to our L Funds as opposed to a to-retirement approach. OI also conducted an annual L Fund asset allocation review, and worked with a consultant to review the benchmarks for the F, C, S, and I funds. Mr. McCaffrey noted OI began the process of planning to re-compete the F Fund, and the TSP Investment Management Operations Audit was conducted, which included both an internal financial operations review and on-site work at the investment manager facility.

Mr. McCaffrey provided an outlook for 2018, which included completing the F Fund source selection, plans to re-complete the I Fund, implementing the I Fund benchmark change, and conducting another L Fund asset allocation review. OI is also working on implementation planning of having two investment managers, and putting together a formal project plan to institute 5-year increments for the L funds, which is expected to be in place by July 2020.

In response to a question from Chairman Kennedy regarding the status of adding a mutual fund window, Mr. McCaffrey noted it is still in the planning stages, and Mr. Deo added it is work that has been folded into a broader portfolio within the Agency, and is still progressing. Board Member Jasien asked where custody and “to and through” land in the timeline, which Mr. McCaffrey explained is a part of each year’s annual L Fund asset allocation review. Board Member Jasien sought further clarification on capability challenges associated with implementation, Mr. McCaffrey stated it may force pushing timelines forward, and Mr. Deo added there would be some technical issues. Chairman Kennedy noted that the to versus through topic had been tabled due to the implementation of Blended, and that some point over the next year, the Board would like to engage in follow on discussions.

6. Federal Employee Viewpoint Survey (FEVS) Update.

Ms. Goethe provided an update to FEVS results. See “Federal Employee Viewpoint Survey-Results Initiatives Progress Report.” Ms. Goethe stated that the 2017 survey results led to several initiatives across the Executive Leadership Committee (ELC), the Agency, and office-specific levels. The ELC discussed findings and developed actions, which included communication efforts, where the ELC provides a uniform message from each meeting to disseminate to each office. The Executive Director regularly provides a summary of ELC agenda topics. In addition, offices are engaging with the ELC by reporting on key agency processes.

Ms. Goethe next stated the Office of Enterprise Planning (OEP) has commenced work to gather input from several sources on ELC decision-making, which was a topic at the ELC strategic retreat in February. The ELC is also conducting a charter review, to determine if any changes need to be made. The Center for Organizational Excellence analyzed the 2017 results, and provided areas for agency-wide improvement. This included a focus group study that targeted topics from areas with weaker FEVS scores, which were leadership, communication, and employee contribution. Most offices received office-specific results, and each office director determined how to address findings within their staff. Ms. Goethe noted that some offices required assistance in addressing findings, so the Agency contracted with Federal Management Partners to gather more formal feedback through the use of focus groups and interviews.

Ms. Goethe noted the plan is to combine the feedback from each of these efforts, as well as those provided by consultants, and provide recommendations back to the ELC, who in turn will provide a plan to implement changes. Chairman Kennedy asked what can be done short-term to address these concerns, Ms. Goethe stated the biggest area for improvement is communication, and the ELC and senior leadership are working to provide more information to staff. In response to a question from Board Member Jones regarding peer review processes, Ms. Goethe stated there is not a current peer review process in place, but that changes to the performance management process are currently pending. ELC members have gone through a 360 peer review in the past, and Mr. Deo noted he and Suzanne Tosini conduct fireside chats with employees to collect feedback on leadership. Mr. Kennedy also asked what the Executive Director's plans were for office outings, in which Mr. Deo responded there will be an end of summer cookout, and celebrations for major milestones accomplished—such as the successful launch of Blended Retirement. Board Member Jasien asked how often the Agency holds an All-Hands staff meeting, to which Mr. Deo responded quarterly.

7. Office of Technology Services Update.

Ms. Tosini provided an update to IT initiatives. See "OTS Update February 2018" (attached). Ms. Tosini stated the continuation of two 2017 IT initiatives are still underway. First, the implementation of mainframe security remediation, which is on track to be completed by May. Second, is the encryption of data in transit, which should be completed March 26th. As far as 2018 initiatives, the Trusted Internet Connection (TIC) contract has been awarded and the schedules are currently being developed for July implementation. The Network Access Control (NAC) contract, which is a security protocol that prevents unauthenticated access, has also been awarded. OTS is also looking into the different ways to perform Mainframe archiving. The Active Directory consolidation is a security enhancement that OTS, along with Microsoft and SAIC, is developing to merge two domains into one. OTS is expecting a May contract for WAN circuits, which will increase capacity throughout the Agency and call centers. Agency

level mobile device management has been moved to 2019, as this requirement is performing relatively well and is at a lower priority than other initiatives. . Lastly, OTS is in the process of replacing all Agency Windows 2008 servers, which is expected to be completed this year.

Finally, Ms. Tosini touched upon the March 2 power outage that affected the Agency and data centers. There was a historic windstorm in the Washington D.C. metropolitan area, which closed the federal government and caused widespread power outages. Ms. Tosini noted there are three layers of redundancy at the Data Center, along with monthly testing, however, the centers still lost power. The Agency was able to be back online within 5 hours, however, the call centers were not restored until after 12 hours, as there were security settings that needed updating. Ms. Tosini pointed out the Agency made all of its daily investments and there was no loss of system data. OTS is working on an after-action report and the follow-on work that is necessary to ensure the Agency is not susceptible to this type of outage in the future. Responding to a question from Board Member Jasien, Ms. Tosini stated the Agency is looking into different solutions to prevent call center shutdowns in the future.

8. Blended Retirement Update.

Tanner Nohe, Project Manager for the Blended Retirement project, provided a Blended Retirement update. See "FRTIB Blended Retirement Update Presentation" (attached). Mr. Nohe stated that as of March 26, there are 160,525 Blended Retirement participants in the system. The growth in this number is slowing down as there is a shift from initial opt-ins in January and February, to automatically enrolled uniform services members in the May payroll. The March payrolls have started to reflect regular contributions, as well as 1% agency matching.

Mr. Nohe noted the Blended Retirement project will transfer over to steady state operations and be handled by the Office of Participant Services (OPS). There is one more project team call with the payroll centers scheduled, however, OPS may work to extend them through the end of the year. Chairman Kennedy asked if there were any surprises or unforeseen obstacles throughout the implementation, to which Mr. Nohe responded by stating the project team was very high performing that functioned without any issues. Chairman Kennedy also asked if the statistics were in line with projections, to which Mr. Nohe responded that the enrollment numbers should be on track once auto-enrollment commences in May. Board Member McCray asked if there were any takeaways that could be applied to other Agency projects in the future. Mr. Nohe responded by stating there is a comprehensive lessons learned document, which was briefed to the ELC in February, and will be used to educate Agency project managers in the future. Board Member Jasien asked if the rate of enrollment was in line with projections, which Mr. Nohe confirmed was in line with forecasts, and the current infrastructure is ready for all the ebbs and flows.

9. Executive Director Recognition.

Chairman Kennedy presented Mr. Deo with a pin for three of service at the FRTIB, and further congratulated Mr. Deo for all his hard work, and contributions to FRTIB.

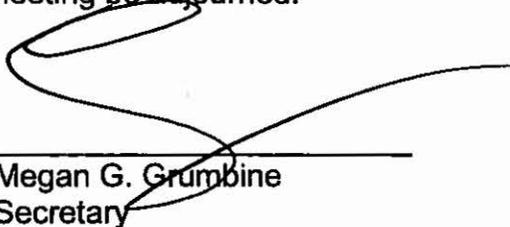
10. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:26 a.m. for executive session.

At 1:01p.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 1:01 p.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. February 2018 Performance Review – G, F, C, S, I, and L Funds
3. Quarterly Vendor Financial Assessment–4th Quarter 2017
4. Office of External Affairs Annual Review
5. Office of Investments Annual Review
6. Federal Employee Viewpoint Survey (FEVS) – Results Initiatives Progress Report
7. IT Update
8. FRTIB Blended Retirement Update Presentation