



## MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 22, 2018

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 22, 2018, at 8:31. a.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, member; 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; Renée C. Wilder Guerin, Director, Office of Enterprise Planning; Susan Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Tee Ramos, Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Technology Officer; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the September 17, 2018 Board Member Meeting.

Following brief opening remarks, Chairman Kennedy entertained a motion for approval of the minutes of the September 17, 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 September 17, 2018 be approved.

2. BlackRock Reports

Mr. Deo introduced Larry Fink, CEO of BlackRock, and Mr. Fink's BlackRock colleagues.

a. Comments from Mr. Fink

Mr. Fink provided a general overview and outlook of the U.S. economy and the global economy.

b. Changes in L Fund Exposure and I Fund Benchmark

Anne Ackerley, Managing Director of BlackRock, provided an update on trends in defined contribution plans. Ms. Ackerley noted that more than 80 percent of

401(k) plans have target date funds as the default investment option, and more than 70 percent of all new 401(k) contributions are invested in target date funds.

Given the popularity of such funds, Ms. Ackerley believes it is critical that the TSP's target date funds, the L Funds, be structured appropriately. Ms. Ackerley noted that in light of longer life expectancies (and in turn, longer periods of retirement), L Funds need more exposure to growth assets, particularly while TSP participants are young. The TSP's new approach to adjust L Fund investments on a "glide path" will enable such exposure. Once the glide path is fully implemented, participants investing in L Funds with a target date farthest in the future will see their L Fund stock exposure increase from the current 90 percent exposure to 99 percent exposure; once an L Fund reaches its target date, stock exposure will bottom out at 30 percent instead of the current 20 percent following the glide path realignment.

Ms. Ackerley also noted that the TSP I Fund's transition from tracking the MSCI EAFE to the MSCI ACWI ex U.S. IMI will provide a more diversified exposure to growth assets, including emerging markets, as well as Canadian and small cap assets.

c. C, S, I, and F Fund Performance

BlackRock employees presented a review on the performance of the C, S, I, and F Funds. See BlackRock Overview (attached). Manish Mehta, Managing Director of BlackRock, noted that the C Fund was one basis point above the performance benchmark for the trailing year, primarily due to securities lending. Overall performance of the S Fund tracked its benchmark for the trailing year when excluding securities lending, but with securities lending accounted for, it performed 23 basis points above the performance benchmark. The I Fund was 47 basis points above the performance benchmark, primarily due to tax advantages in the I Fund, but also in lesser part due to securities lending. Scott Radell, Managing Director of BlackRock, noted that the F Fund is 21 basis points above benchmark for the trailing year.

Richie Prager, Senior Managing Director of BlackRock, added that Tesla and the healthcare sector in general were among the particularly strong contributors to securities lending within the S Fund. Mr. Prager further noted that French securities generated about 53 percent of the I Fund's securities lending earnings. The F Fund has seen steady securities lending demand in response to collateral upgrades.

Mr. Prager stated that retirement plans are increasingly engaged in term lending because of the superior returns, and recommended further discussion of term lending as an option for the TSP.

Mr. Fink and Lilian Wan, Managing Director of BlackRock, also noted that in the private sectors, investors increasingly demand "Environmental, Social and Governance" or "ESG" investment options which comport with their personal ethical views. Mr. Fink and Ms. Wan acknowledged that the TSP is not currently authorized to establish ESG funds, but noted that that it could be the case that, over time, all investing may eventually incorporate ESG standards.

Following the remarks from BlackRock, Chairman Kennedy allowed a recess at 9:59 a.m., and reconvened at 10:10 a.m.

### 3. FRTIB Reports

Mr. Deo gave opening remarks and asked Mr. Ramos to deliver the participant activity report.

#### a. Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Mr. Ramos highlighted that there were 301,000 Blended Retirement System opt-ins through the month of September. The Uniformed Services TSP participation rate is now at 54.8 percent and trending upward. Mr. Ramos also noted that there is a four percent increase in the number of TSP participants holding Roth accounts when compared with last year. Currently, 23.5 percent of participants have Roth accounts, and Roth assets have grown from \$8.5 billion to \$12.6 billion in that time frame. Mr. Ramos added that processing improvements and increased staffing levels at TSP contact centers has improved turnaround times for responding to written communications from participants.

#### b. Legislative Report

Mr. Deo reported that, because Congress is in recess, there is no legislative report for the month.

#### c. Monthly Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "September 2018 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for the month of September, performance for the F, C, and S Funds were in line with indices, while the I Fund was ahead of the benchmark by four basis points, primarily due to tax effect.

For the year to date, the F and S Funds are ahead of the benchmark by 14 and 21 basis points, respectively, primarily due to securities lending and, in the case of the S Fund, also due to securities sampling. The I Fund is ahead of the benchmark by 41 basis points, primarily due to the tax effect. Mr. McCaffrey noted that the C Fund is in line with its benchmark.

For the month, U.S. stock returns were mixed, as concern about the direction of trade policy continued against the backdrop of very strong economic numbers and expectations for solid corporate earnings growth. The C Fund moved modestly higher, while the S Fund fell. International stock held on to gains, boosting the I Fund. The Federal Reserve raised its target interest rate range for the third time this year, noting prospects for the labor market and inflation. Most interest rates were higher

across the Treasury curve, leading to the F Fund's negative returns. All of the L Funds achieved gains in September.

For the month of October through October 19th, all equities were in a loss position. The C Fund declined by 4.93 percent; the S Fund by 8.37 percent; the I Fund by 6.22 percent; the F Fund by 0.87 percent.

Mr. McCaffrey also reported class action settlements. He noted that there were 42 claims open at the start of the quarter and 24 claims were opened during the quarter. Over the course of the quarter, nine were closed, two of these due to administrator action and seven due to settlements. At the end of the quarter, 57 claims remained open. Settled claims amounted to about \$129,000.

d. Motion to Reaffirm Fund Management Practices

Chairman Kennedy entertained 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.

e. Budget Report

Ms. Crowder gave a presentation on the FY 2018 budget. See "FRTIB FY 2018 4<sup>th</sup> Quarter Budget Review" (attached). Ms. Crowder noted that FRTIB was under budget for the year, using approximately 94 percent of its projected budget. Of the \$292.1 million expended, \$203 million was on recordkeeping. Average assets at the conclusion of FY18 was at \$550.2 billion. Member Jones congratulated FRTIB for operating under budget.

f. Audit Report

Mr. Ahuja introduced Michele Chalmers, Quality Control Principal, and David Scaffido, IT Audit Manager, both of CliftonLarsonAllen, to review CliftonLarsonAllen's written audit update. See "CliftonLarsonAllen Review" (attached).

g. ORM Update

Mr. Deo introduced Ms. Goethe, who provided the ORM Update. See "ORM Update" (attached).

Ms. Goethe reviewed FRTIB's Enterprise Business Continuity Management System. Ms. Goethe explained that FRTIB developed its continuity plan by adapting the

International Organization for Standards' 22301 Business Continuity Standard to FRTIB's needs. The National Fire Protection Agency's standards and the Federal Emergency Management Administration's Federal Continuity Directive were also consulted in the development of the FRTIB plan.

Ms. Goethe explained that in relation to prior practice, FRTIB's new Enterprise Business Continuity Management System provides greater continuity of operations, flexibility, continuous improvement of capabilities, and improved alignment between FRTIB and its private-sector vendors and contractors. In accord with the plan, FRTIB has designated emergency employees tasked with ensuring continuity in emergency situations, conducted tabletop exercises of disrupting events (e.g., infrastructure problems; armed intruders), and improved plans for disaster IT recovery.

Ms. Goethe also delivered a human capital update. FRTIB saw an improvement in onboarding levels for FY 2018, and authorized staffing levels rose from 80 percent to 90 percent. Attrition levels also fell from ten percent in FY 2017 to seven percent in FY 2018. This attrition rate includes transfers to other federal agencies. According to employee interviews, two main reasons employees choose to stay at FRTIB are managerial support and flexibility in the workplace, while the primary reason employees depart is to pursue promotional opportunities.

ORM has undertaken an agency-wide skills assessment in order to ascertain training and recruitment needs. In another achievement, ORM automated FRTIB's performance management system. ORM is also completing a review of Official Personnel Folders to identify records requiring correction, and has completed 73 percent of the review. FRTIB also successfully recruited and hired its first Senior Level employee, the Chief Information Security Officer.

Ms. Goethe also reviewed the results of the Federal Employee Viewpoint Survey. The results demonstrate a stabilization in employee satisfaction and illustrate several positive changes in relation to last year, although results are still not at the highest levels that they were five to six years ago.

#### **h. Audit and Security Review**

Brack Boone, Senior Auditor, Office of Enterprise Risk Management, presented the Audit and Security Review. See Audit Status/Security & Remediation Status (attached). Mr. Boone noted that of ten external audits in progress, eight are related to Employee Benefits Security Administration and are in the reporting process, meaning there is no further fieldwork required. Mr. Boone further advised on the status of FRTIB's open and closed audits as described in the written status report.

Mr. Deo explained that with regard to vulnerabilities discovered in an audit, FRTIB takes a two-step remediation approach. First, FRTIB corrects the identified vulnerability to reduce short-term risk. Second, FRTIB investigates the origins of the corrected vulnerability to reduce long-term risk. In open audits, FRTIB has typically already taken the first step to reduce vulnerability, but that does not mark the completion

of the remediation. Accordingly, open audit findings relating to vulnerabilities do not usually reflect an immediate vulnerability.

Mr. Deo stressed that FRTIB has prioritized more significant vulnerabilities in the remediation process. FRTIB has reduced "critical" vulnerabilities from 12 to zero, and "high" vulnerabilities from 109 to 59. In the last six months, the Department of Homeland Security's NCATS program has provided zero vulnerability findings against FRTIB, which further indicates significant improvements. DHS assessed FRTIB as one of just four agencies that are 100 percent compliant on web and email vulnerability assessments.

Mr. Deo noted that he anticipates reporting 33 audit closures next quarter.

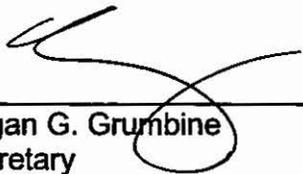
4. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 11:35 a.m. for executive session.

At 1:19 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 1:20 p.m.

MOTION: That this meeting be adjourned.

  
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Megan G. Grumbine  
Secretary

## **Attachments**

- 1. BlackRock Overview**
- 2. Thrift Savings Fund Statistics**
- 3. September 2018 Performance Review – G, F, C, S, I, and L Funds**
- 4. FRTIB FY 2018 4th Quarter Budget Review**
- 5. CliftonLarsonAllen Review**
- 6. ORM Update**
- 7. a. Audit Status/Security & Remediation Status**  
**b. Performance Audit of the Thrift Savings Plan Loans Process**  
**c. Performance Audit of Certain Thrift Savings Plan Government Securities Investment Fund Investment Operations**  
**d. Performance Audit of Certain Thrift Savings Plan Insider Threat Controls**