



## MINUTES OF THE MEETING OF THE BOARD MEMBERS

September 17, 2018

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on September 17, 2018, at 8:30 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 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; Renée C. Wilder Guerin, Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs; 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 August 27, 2018 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the August 27, 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 August 27, 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 highlighted that the FERS participation rate continues to be above target at 90.6 percent and the participation rate for active duty members of the uniformed services obtained a new high of 54 percent, attributable to the steady increase in uniformed service members opting into the Blended Retirement System. Mr. Ramos noted that roll-in activity continues to be robust, with inflows totaling \$130 million rolling into the Plan.

b. Monthly Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "August 2018 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for the month of August, performance for the F Fund was ahead of the benchmark by 3 basis points, primarily due to securities lending, and performance for the S Fund was ahead of the benchmark by 7 basis points, primarily due to securities sampling and securities lending. Performance for the C and I Funds was in line with indices.

For the year to date, the F and S Funds are ahead of the benchmark by 12 and 23 basis points, respectively, primarily due to securities lending and, in the case of the S Fund, securities sampling contributed to the outperformance. The I Fund is ahead of the benchmark by 36 basis points, primarily due to the tax effect. Mr. McCaffrey noted that the C Fund is in line with its benchmark.

For the month, better corporate earnings growth and the strong economy helped drive positive investor sentiment for U.S. equities while higher interest rate fears appeared to have subsided. As a result, the C and S Funds achieved solid gains. Mr. McCaffrey noted that international markets may have borne the brunt of trade-related concerns as the I Fund fell. Lower interest rates propelled the F Fund gains and the L Funds all gained for the month.

For the month of September through Friday's close, the C Fund is up by 0.22 percent. The S, I, and F Funds are down 0.44 percent, 1.09 percent, and 0.54 percent, respectively.

Mr. McCaffrey highlighted that BlackRock's custodial transition of the I Fund and F Fund from State Street to JP Morgan successfully concluded in July and August, respectively. The C and S Fund transitions were successfully concluded in April.

c. Legislative Report

Ms. Weaver reported that Senator Merkley introduced S. 3424, the RISE Act of 2018. The bill would require the Agency to create a new fund, the Climate Choice Stock Index Fund, as an investment option under the Plan. In addition, it would require a GAO report that would determine the proportion of stocks and bonds held in the Plan attributable to fossil fuel companies and provide a plan to allow the Plan to divest from fossil fuel entities across the board to prevent negative investment risk on Plan participants. Ms. Weaver noted that the Agency typically opposes this type of bill and will review internally.

3. Fiscal Year (FY) 2019 Budget Review and Approval.

Ms. Crowder and Mr. Deo gave a presentation on the FY 2019 budget request and FY 2020 budget estimate. See “FRTIB Annual Budget Presentation” (attached). Ms. Crowder began with a review of FY 2018 accomplishments with respect to the Agency’s four strategic priorities—(1) steady state operations; (2) cybersecurity and remediation of audit findings; (3) the Blended Retirement System; and (4) the Plan Operations Modernization Portfolio (POMP).

For FY 2019, the Agency requested \$360.6 million. Mr. Deo noted that Plan assets are projected to continue to grow at a moderate pace in 2019. Mr. Deo reviewed the cost drivers of each office within the Agency, noting that the largest impact to the overall Agency budget is in the Office of Technology Services, which includes daily recordkeeping operations and maintenance.

Mr. Deo reviewed the Agency’s four strategic priorities for FY 2019. The first priority is continued steady state operations improvements. The second is ensuring a successful implementation of additional withdrawal options for Plan participants. The third priority is maintaining and hardening the Agency’s legacy systems. The final strategic priority for FY 2019 is POMP and related strategic acquisitions.

Mr. Deo closed out the budget presentation by highlighting that the Agency is requesting Board approval of a FY 2019 budget of \$360.6 million, which is a 16.4 percent increase from the FY 2018 budget. Member McCray expressed support for the strategic priorities and asked how the cost slope will look in the future once these priorities are successfully implemented. Mr. Deo noted that the IT update is expected to take another two years, at which point the slope increase should level off. However, he added the caveat that the POMP procurement should be complete at the same time, which will require running two systems in parallel during a transition period, which will cause a substantial budget increase. Member Jasien followed up by asking when the budget to asset ratio would drop back to 5 basis points or lower. Mr. Deo indicated that the Agency’s best guess right now is 2023.

Chairman Kennedy entertained a motion for approval of the FY 2019 budget. The following motion was made, seconded and adopted without objection:

MOTION: That the FY 2019 budget be approved.

4. Quarterly Vendor Financial Assessment.

Mr. Ahuja provided an update on the operational and financial health of nine of FRTIB’s key vendors. See “Quarterly Vendor Financial Assessment” (attached). He reported that there was no indication that any of these vendors would be unable to fulfill their contractual obligations to FRTIB.

5. Capital Market and L Fund Asset Allocation Review.

Mr. McCaffrey introduced Russ Ivinjack and Bill Ryan from Aon Hewitt Investment Consulting, Inc. (Aon), who discussed Aon's Lifecycle Fund Asset Allocation review. See "Lifecycle Fund Asset Allocation" (attached). The objective of Aon's study was to review if the glide paths should be changed from their current state to more equity-oriented alternatives. Aon was asked to include in its study a "through" retirement set of glide paths, so the Agency could evaluate a full set of choices. Aon highlighted that the existence of the defined benefit component of FERS along with income predictability for participants had a major impact on how it looked at designing glide paths for the Plan.

Mr. McCaffrey presented the Office of Investments (OI) response to the Aon review. OI made the following four recommendations to the Executive Director: (1) transition the current L Fund glide paths by holding their stock allocations constant over an extended period, effectively increasing stock at each future age; (2) increase exposure to international stock from 30 percent to 35 percent of overall stock allocation for all L Funds; (3) maintain the "to" approach rather than changing to a "through retirement" design; and (4) increase the age at which a glide path should end from age 62 to age 63.

Mr. Michael Jerue of OI presented a demonstration of how the extended glide path transition will work. Beginning with the L 2060 Fund, glide paths will begin with a 99 percent stock allocation rather than the current 90 percent. Total stock allocation for the L 2030, L 2040, and L 2050 will be frozen at Q4 2018 levels to facilitate this transition. Over a period of up to 10 years, the L Income Fund stock allocation will increase from 20 percent to 30 percent.

Several Board members questioned how appropriate the new L Fund glide paths would be if various potential situations, including the elimination of the FERS defined benefit, were to occur. Mr. McCaffrey responded that the Agency engages in an L Fund asset allocation review every year, which will allow changes to be made as necessary.

6. IT Update.

Mr. Desai provided an update on IT initiatives. See "IT Update" (attached). Mr. Desai focused on the seven modernization initiatives for 2018: Trusted Internet Connection implementation, Network Access Control implementation, OMNI archiving, encryption of non-PII data in transit, active directory modernization, WAN circuits/FRTIB backbone upgrade, and case management system implementation. The execution of these initiatives is progressing and generally tracking to the respective schedules.

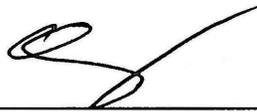
7. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:44 a.m. for executive session.

At 11:36 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 11:36 a.m.

MOTION: That this meeting be adjourned.



---

Megan G. Grumbine  
Secretary

## Attachments

1. Thrift Savings Fund Statistics
2. August 2018 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB Annual Budget Presentation
4. Quarterly Vendor Financial Assessment
5.
  - a. L Fund Asset Allocation Memo to ED
  - b. L Fund Asset Allocation Review PowerPoint
  - c. Aon Hewitt TSP L Funds Study
6. IT Update