



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

77K Street, NE Washington, DC 20002

MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 22, 2019

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 22, 2019, 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 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; 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 Officer to the Executive Director.

1. Approval of the Minutes of the June 24, 2019 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the June 24, 2019 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 24, 2019 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 tracked in line with past summers and remains stable. Mr. Ramos noted that TSP loan volumes dropped seven percent from the previous month and the run rate for 2019 is approximately three percent lower than in 2018. Uniformed service members continue to favor the Roth option; although they comprise only one third of total TSP population served, they comprise nearly 60 percent of Roth TSP accounts. Mr. Ramos concluded by stating that Two Factor Authentication numbers continue to climb with approximately

215,000 participants opting in since implementation. In response to Member Jasien's question about the reduction in TSP loan volumes, Mr. Ramos explained that the seven percent reduction is seasonal and that otherwise loan volume is stable.

b. Legislative Report

Ms. Weaver provided an update on S.439, the "End Plush Retirements Act," which, *inter alia*, would allow members of Congress to opt out of Federal Employees Retirement System (FERS) participation while still allowing their participation in TSP. S.439 is scheduled for committee markup on July 24, 2019.

Ms. Weaver noted that the House Department of Defense (DOD) authorization bills included two recently added provisions: the first requires DOD and the Department of Veterans Affairs to submit an evaluation report of their respective best practices on financial literacy education to separating service members to Congress; and the second requires DOD to submit a report to Congress on military spouse financial readiness.

In response to a question from Member McCray, Ms. Weaver explained that reports indicate possible agreement on reaching an extension of the debt limit, depending on other agreements on budget caps and spending offsets.

In response to a question from Member Jasien, Ms. Weaver briefly discussed the status of H.R. 1994, the SECURE Act, and S.972, the Retirement Enhancement and Savings Act (RESA). Ms. Weaver explained that the SECURE Act delay is due to the recent addition of provisions providing tax incentives for home schooling. Industry is working with members of Congress to advance this legislation.

3. Quarterly Reports.

c. Investment Performance

Mr. McCaffrey first reviewed the monthly investment performance report before going into the quarterly report. See "June 2019 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, S, and I funds was in line with indices. For the year to date, BlackRock's performance for the F, C, and S Funds was in line with the respective indices. Its performance for the I Fund was 37 basis points ahead of the International Index, primarily attributable to tax effect.

Mr. McCaffrey noted that the market seemed focused on economic growth through much of the month. Meanwhile, the Federal Reserve expressed an intent to sustain the U.S. economic expansion, a sentiment interpreted by many observers as a signal of forthcoming interest rate cuts. This expectation fueled investor appetite for stocks, leading to strong gains for the C and S Funds. The I Fund also posted a significant increase, helped by a weaker U.S. dollar. Hope for de-escalation of

trade tensions further boosted stocks. Finally, falling interest rates propelled the F Fund to a gain. All of the L Funds posted positive returns.

Mr. McCaffrey reported that U.S. stocks are ahead month-to-date through Friday, July 19. The C Fund is ahead by 1.29 percent. The S Fund is up 0.5 percent. International stocks are a bit behind, with the I Fund down 0.17 percent. The F Fund is just about break even at the moment, ahead by 0.01 percent.

Lastly, Mr. McCaffrey presented quarterly updates, reporting that an audit of BlackRock proxy voting found no exceptions to established guidelines during the first quarter of 2019. Mr. McCaffrey continued his quarterly presentation with a report on class action settlements. There were 55 claims open at the start of the first quarter of 2019. Ten claims were opened during the quarter. Four claims were closed in the S Fund, one of which was due to Administrator action and three claims were settled for a total of 204,173 dollars. At the end of the quarter, 61 claims remained open.

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.

d. Budget Review

Ms. Crowder presented the 3rd quarter budget review. See "FRTIB FY 2019 3rd Quarter Budget Review" (attached). Ms. Crowder reported that the Agency's spending is 94 percent in alignment with target; the spend plan target was 293.4 million dollars, of which 275 million dollars or 76 percent, has been executed. Ms. Crowder reported that the Plan's average assets total approximately 575.5 billion dollars and the budget is 360.6 million dollars.

In response to a question from Member Jasien, Ms. Crowder agreed to provide the TSP asset to expense ratio in future budget reporting. In response to a question from Member McCray, Mr. Deo explained that the next fiscal year's budget will be presented to the Board in September. In response to a question from Member Bilyeu, Mr. Deo described that an increased budget proposal would be due to resources required to serve an increased TSP participant and beneficiary population. In response to follow on questions from Members McCray and Jones, Mr. Deo agreed to address IT-related expenses and efficiencies gained as a result of IT investments when the budget is presented to the Board.

e. Audit Status

Mr. Boone provided a quarterly update on the status of the Agency's open audit findings. See "Audit Status/Security & Remediation Status" (attached). Twelve audits have been completed thus far in FY 2019 and nine audits are in progress for this fiscal year, which include the FISMA FY 2018 audit.

Mr. Deo provided an update on the remediation status of audits. The FY 2019 goal for audit closures was 120. As of June 30, 2019, 138 findings were closed. Audit findings activity was presented from two perspectives: that of auditors and that of the Agency. According to auditors, 407 audit findings remain open in FY 2019. According to the Agency, 293 audit findings remain open for the fiscal year. The difference in numbers is due to non-concurrence and findings that have closed but have not yet been re-visited by the auditors.

In response to questions from Member Jasien, Mr. Deo clarified that the Agency's audit findings closures track with EBSA closures. In response to Member Jones' question, Mr. Deo agreed to provide regular independent verification and validation initiative updates to the Board, ranked by risk to the Agency. In response to a question from Chairman Kennedy, Mr. Deo noted that the continued focus on remediating audit findings requires elevated resources, which will be reflected in the budget presentation to the Board in the coming months.

4. Additional Withdrawals Project Update.

Tanner Nohe, of the Office of Enterprise Planning, presented an update on the Additional Withdrawals Project (AWP). See "FRTIB Additional Withdrawals Project" (attached). Mr. Nohe stated that the project continues to perform user acceptance testing for Phase One, testing is 93 percent complete for Phase Two, and testing for Phase Three, which began in late June, is 53 percent complete. Mr. Nohe also noted that the Agency will update the relevant regulations in August.

Mr. Courtney discussed the communication effort surrounding AWP. Of the 1.4 million participants in the AWP targeted outreach strategy, approximately 900,000 received emails about the effort, and the remaining 500,000 received targeted mailings. Mr. Courtney went on to discuss the launch of the Thrift Savings Planner, TSP's new monthly email newsletter to participants and beneficiaries. AWP was among the topics discussed in the first edition of the Thrift Savings Planner, which was sent on July 11, 2019. AWP was the second most clicked topic in the newsletter. In response to a question from Member Jones, Mr. Courtney explained that the Office of Communications and Education (OCE) is looking into the ability to track TSP transactions prompted by a participant reading the newsletter.

5. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:04 a.m. for executive session.

At 12:41 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 12:41 p.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. June 2019 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB FY 2019 3rd Quarter Budget Review
4. Audit Status/Security & Remediation Status
5. FRTIB Additional Withdrawals Project