



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

June 24, 2019

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on June 24, 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 (by phone), 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 May 29, 2019 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the May 29, 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 May 29, 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 continued to increase and reached 91 percent for the first time. The Uniformed Services participation rate is now over 62 percent. Mr. Ramos noted that post-separation withdrawals are down 15 percent from last month, but that the rate for 2019 is about 5 percent higher than in 2018. Mr. Ramos concluded by stating that Two Step Authentication continues to climb with approximately 170,000 participants opting-in to Two Step Authentication.

b. Monthly Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "May 2019 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for the month of May, performance for the F and C Funds was in line with indices. The S Fund underperformed the index by three basis points, primarily as a result of securities sampling. The I Fund outperformed the International Index by 12 basis points, primarily as a result of tax effect.

For the year to date, the F, C, and S Funds were in line with the Funds' respective indices. Performance for the I fund was 34 basis points higher than the International Index, primarily due to tax effect.

Mr. McCaffrey noted that trade tensions dominated headlines in May, generating fears of a global economic slowdown which prompted investors to shift away from equities in favor of fixed income. This shift impacted large-, mid-, and small-capitalization stocks in the United States, leading to declines in the C and S Funds. Large capitalization stocks in international developed markets also fell, causing the I fund to post a loss. Mr. McCaffrey stated that conversely, the F Fund had gains thanks to falling interest rates. Lastly, Mr. McCaffrey noted that all the L Funds posted negative returns.

For the month of June through Friday the 22nd's close, the C, S, and I Funds are up by 7.34 percent, 6.09 percent, 5.24 percent, respectively. The F Fund is also up by 0.82 percent.

Lastly, Mr. McCaffrey addressed an increase in inter-fund transfer activity. Mr. McCaffrey explained that in May, some equity-holding participants moved towards the safety of the G Fund. Mr. McCaffrey cautioned against over-emphasizing the importance of the change because the percentages are very small, and over 99 percent of assets did not move.

c. Legislative Report

Ms. Weaver provided an update on H.R. 2553, a bill that would have required the Chairman to serve as a fiduciary on another board. She has spoken to staff of the sponsor of the bill who has indicated that this requirement will be removed.

Ms. Weaver noted that the House and Senate are moving forward with their respective Department of Defense authorization bills. However, there is nothing in the bills that makes a change to the Blended Retirement System.

In response to a question from Member Jasien, Ms. Weaver discussed the status of H.R. 1994, the SECURE Act. Ms. Weaver explained that the bill was currently stalled in the Senate.

3. Quarterly Vendor Risk Assessment.

Mr. Ahuja presented a quarterly update on the risk exposure from the Agency's key vendors. See "Quarterly Vendor Risk Assessment – 1st Quarter Calendar Year (CY) 2019" (attached). Mr. Ahuja explained that this assessment examines the vendors' financial health, operational and reputational credit, as well as other factors that could affect the vendors' ability to provide services to the Agency. Mr. Ahuja informed the Board that based on his office's analysis, there is no indication that any of the vendors will be unable to fulfill their contractual obligations to the Agency.

4. Enterprise Risk Management Update.

Mr. Ahuja presented the Board with the semi-annual Enterprise Risk Management Update. See "Enterprise Risk Management (ERM) Update" (attached).

Mr. Ahuja explained that the Agency had previously identified and ranked 21 agency-level risks. Of the 21 risks identified, five risks were categorized as high, eight were categorized as medium-high, and eight were categorized as medium. Mr. Ahuja reiterated that the Agency had made the decision to focus on the five risks that were rated as high.

Since the last update, the Office of Enterprise Risk Management (OERM) has worked with risk owners to develop Risk Treatment Plans for the identified high risks. Mr. Ahuja also emphasized that his office has refined its methodology and collaborated with other offices to mature the Enterprise Risk Management Program.

Mr. Ahuja provided a status update on the top five risks: (1) Information Security, (2) Disaster Recovery, (3) Business Continuity, (4) Insider Threat Management, and (5) TSP Fraud. For each risk, Mr. Ahuja provided the current risk score, the status of the Risk Treatment Plan, and the future risk score—the anticipated risk score as of the end of calendar year 2019.

For Information Security, Mr. Ahuja stated that the risk remains high, that the Risk Treatment Plan is on-target, and that the future risk score is high. Mr. Ahuja emphasized a number of improvements, including encrypting data in transit, endpoint security, issuance of Authority to Operate (ATO) for the Identity, Credential, and Access Management function, and partnering with DHS to implement the Continuous Diagnostics and Mitigation (CDM) Program. Chairman Kennedy asked when the Agency could expect to see a lower risk score for this metric. Mr. Ahuja explained that because of evolving technology as well as changing threats, he expects that this will continue to remain a high risk for the next two years.

For Disaster Recovery, Mr. Ahuja stated that the current risk is high, the Risk Treatment Plan is delayed by four or more months, and the future risk score is high. Mr. Ahuja explained that the Risk Treatment Plan was delayed due to a change in disaster recovery strategy. Mr. Ahuja emphasized that there have still been

improvements, including purchasing additional bandwidth for both data centers and completing the storage replacement/upgrade at the alternate data center.

For Business Continuity, Mr. Ahuja noted that the current risk score is high, the Risk Treatment Plan is delayed by four or more months, and the future risk score is high. Mr. Ahuja explained that the Risk Treatment Plan for Business Continuity was delayed due to its dependence on the Disaster Risk Recovery Treatment Plan. Mr. Ahuja described relevant accomplishments, including creating a Business Continuity Plan, policy and procedures, and business impact analysis.

For Insider Threat Management, Mr. Ahuja stated that the current risk score is high, the Risk Treatment plan has encountered some delay, and the future risk score is medium-high. Mr. Ahuja noted that there was some delay in the Risk Treatment Plan but stated that the Agency is confident this will not impact the completion of the project. Mr. Ahuja informed the Board that the Agency has created a formal project and working group, members of the working group have completed necessary training, and the program has finalized a charter.

For TSP Fraud, Mr. Ahuja stated that the current risk score is high, the Risk Treatment Plan is on target, and the future risk score is medium-high. Mr. Ahuja emphasized that the Agency has undertaken a number of remedial activities including implementing two-factor authentication and enhancing the escalation and reporting process from the contact centers.

Mr. Ahuja concluded by noting ongoing key initiatives. First, the Agency is promoting a more risk-aware culture through training and workshops. Second, the Agency will conduct a Calendar Year 2020 Risk Assessment. Lastly, the Agency will promote Risk Appetite Statements issued earlier to help inform risk ranking and risk treatment plans.

Member Jasien asked Mr. Ahuja if he believes the Agency is making progress creating a more risk-aware culture. Mr. Ahuja responded that he believes that risk awareness is starting to embed into the culture at the Agency. Member Jones asked if the Agency was seeing progress with the other 16 identified risks. Mr. Ahuja explained that the focus for OERM has been on the high risks. Remediating the high risks is centralized through OERM, but the Agency continues to work on the other identified risks at the office-level.

5. Internal Audit Update.

Mr. Virgil Savage, of OERM presented the results of the 2018 OMNI applications audit. See "Internal Audit Presentation" (attached). The objective of the audit was to determine the sufficiency of the OMNI application's controls and an

evaluation as to whether the controls comply with the appropriate regulations, laws, policies, and procedures.

The audit resulted in 10 audit findings and 10 recommendations. The Office of Technology Services (OTS) non-concurred with nine findings and partially concurred with one finding. Mr. Desai explained that unexpected circumstances led to the high level of non-concurrences and that the Agency is confident that they have the processes and related artifacts to address the auditor's findings. Mr. Desai requested permission from the Board to redo the audit.

The following motion was made, seconded, and adopted without objection:

MOTION: Motion to amend the 2019 internal audit schedule to redo the OMNI audit and to provide a final report to the Board by March of 2020.

6. Independent Verification and Validation Update.

Mr. Adil Khan and Ms. Jennifer Walker of Kearney & Company (Kearney) presented an update on the Agency's Independent Verification and Validation (IV&V) effort. See "FRTIB Independent Verification and Validation (IV&V) Initiative" (attached). Mr. Khan explained that the objective of the effort was to provide an independent verification and validation of 14 audit findings that had been determined to be closed by the Agency.

Kearney reviewed 14 audit closure packages and found that all the packages were missing some relevant support and explanation. Fourteen packages were sent back to OERM and to the relevant program office to update and enhance the evidence provided in the closure package. Later, the Agency determined that the Agency had non-concurred with one of the findings, so that package was removed from the IV&V effort. The program offices rewrote and resubmitted closure packages for the remaining thirteen findings. Kearney determined that the revised packages adequately addressed the auditor's findings and the packages were closed.

Chairman Kennedy inquired whether Kearney would review additional packages, particularly those from OTS. Mr. Deo explained the process for selecting the packages for review. Mr. Deo then stated that the Agency is in the process of selecting additional findings for Kearney to review and that some of the findings will have a technology focus. Member Jones subsequently requested that when selecting packages for review, that those with higher levels of risk are prioritized.

7. Office of Investments Annual Report.

Mr. McCaffrey presented the Office of Investments Annual report. See "Office of Investments Annual Review" (attached). Mr. McCaffrey noted that the Office of Investments (OI) has six key activities: (1) investment policies and procedures; (2) L

Fund asset allocation strategies; (3) oversee investment management services, including securities lending; (4) ensure funds are invested in accordance with law and applicable policies; (5) provide subject matter expertise; and (6) provide assistance to other offices.

Mr. McCaffrey then discussed how OI has focused its efforts over the past year and half, classified into three guiding themes: execute the vision, operational excellence, and organizational outreach. Mr. McCaffrey explained that the theme—execute the vision—includes transformational investment initiatives such as: F Fund re-complete, L Fund 2018 review and implementations, Multi-Asset Manager RFP, Multi-Asset Manager implementation, I Fund benchmark change, L Fund 2020 Review, and the Five-Year L Funds.

On the second theme, operational excellence, Mr. McCaffrey explained that this goal addresses how the office carries out its responsibilities supervising the investment managers hired by the agency and how the office interacts with other internal or external parties.

The organizational outreach goal refers to how OI carries out its duty to serve as a resource and subject matter expert for other offices within the Agency. Mr. McCaffrey pointed to his office's strong working relationship with the Office of Communications and Education (OCE) and the Office of the Chief Financial Officer (OCFO).

Mr. McCaffrey then discussed the L Funds asset allocation review and explained that after a review conducted with a consultant, the Agency adopted a number of changes to the L Funds. OI proposed a detailed transition plan to move the glide paths to a higher equity level and a slightly stronger investment in international stocks. Finally Mr. McCaffrey noted that the Agency had chosen to maintain a "to" approach, rather than a "through" approach. Member Jasien asked when OI would revisit the "to" and "through" approaches and Mr. McCaffrey responded that OI would evaluate that issue this year.

Regarding the L Funds Additions project, Mr. McCaffrey stated that the TSP would retire the L 2020 next year and roll it into the L Income Fund. At the same time, the TSP is introducing six new L Funds which will establish L Funds in five-year increments. Mr. McCaffrey noted that the target is to launch the new funds in the third quarter of calendar year 2020.

Mr. McCaffrey informed the Board that the Agency released the Request for Proposal (RFP) for the multi-asset manager on May 31, 2019, as scheduled. The responses to the RFP are due on July 12, 2019. If the project continues as planned, it will be implemented in 2020.

Mr. McCaffrey then explained that OI is working on the benchmark change for the I Fund. Currently the I Fund benchmark is the MSCI Europe, Australasia, and

Far East Index. The TSP is transitioning the I Fund to the MSCI All-Country World ex U.S. Investable Market Index, an index that includes an additional developed country, Canada, as well as 26 emerging markets countries.

Mr. McCaffrey concluded his report by discussing some of the organizational outreach OI conducted with OCE. The Agency offers a number of calculators on www.tsp.gov which help participants understand how much to save and how much income they can expect to receive in retirement. OI conducted a review of the calculators to ensure that they are functioning correctly.

8. 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 user acceptance testing for Phase One is continuing; testing is 76 percent complete for Phase Two, to be completed in mid-July; and testing for Phase Three will begin later this week. Mr. Nohe also noted that the Agency posted the proposed regulations in the Federal Register on June 10, 2019.

Mr. Nohe explained that the project recently completed a review of its risks. The project has only one high risk, web development. Mr. Nohe stated that as Phase Two completes testing, this risk should decrease.

Mr. Nohe concluded by discussing upcoming milestones and the communication effort surrounding AWP. The Agency posted an updated fact sheet following the May Board meeting, will begin hosting webinars for participants, and will send out mailings to separated participants in early July.

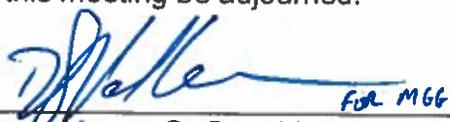
9. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:52 a.m. for executive session.

At 10:37 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 10:37 a.m.

MOTION: That this meeting be adjourned.


Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. May 2019 Performance Review – G, F, C, S, I, and L Funds
3. Quarterly Vendor Risk Assessment – 1st Quarter Calendar Year (CY) 2019
4. Enterprise Risk Management (ERM) Update
5. Internal Audit Presentation
6. FRTIB Independent Verification and Validation (IV&V) Initiative
7. Office of Investments Annual Review
8. FRTIB Additional Withdrawals Project