



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

September 14, 2020

David A. Jones, Acting Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on September 14, 2020, at 10:00 a.m., Eastern Time. The meeting was held telephonically and open to the public. In attendance were Dana K. Bilyeu of Oregon, member; Ronald D. McCray of Texas, 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; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Technology Officer; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Welcome

Acting Chairman Jones called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB) and welcomed everyone to the meeting.

2. Approval of the Minutes of the August 24, 2020 Board Member Meeting

Acting Chairman Jones entertained a motion for approval of the minutes of the August 24, 2020 Joint Board/ETAC meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Joint Board/ETAC meeting that was held on August 24, 2020 be approved.

3. Monthly Reports

Mr. Deo gave opening remarks, including a brief summary of the agenda for the meeting. Mr. Deo explained that due to calendar constraints, the participant activity report for the month of August will be provided in next month's meeting.

a. Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "August 2020 Performance Review – G, F, C, S, I and L Funds" (attached). In August, Blackrock's performance for the F, C and I Funds was in line with their respective

benchmarks. Performance for the S Fund exceeded the small mid-cap index by 3 basis points, primarily due to security sampling.

For year to date, the F and C Funds' performance was in line with their respective benchmarks. The S Fund has lagged its benchmark by 17 basis points, primarily due to securities sampling and futures mistracking, and the I Fund has outperformed its benchmark by 33 basis points, primarily as a result of tax advantage and futures mistracking.

Through September 11, C Fund, S Fund, and I Fund have lost 4.5 percent, 6.12 percent, 0.62 percent, respectively, for the month. G Fund is ahead two basis points, and the F Fund has gained 18 basis points.

Interfund transfers were slightly below the median during the month of August with the largest net inflow to the L Funds, possibly due to the introduction of the 5-year L funds.

b. Legislative Report

Ms. Weaver reported that the Board nominees had their confirmation hearing on Wednesday, September 9, and a mark-up is scheduled for Wednesday, September 16. If the Senate Committee approves the nominations, they will be ready for a vote on the Senate floor. In response to Member McCray's question, Ms. Weaver explained there are approximately two and a half legislative weeks remaining prior to the Presidential election, and it is not known whether these nominees will be brought up for vote before the Presidential election.

4. Quarterly Reports

a. Vendor Risk Management Update

Mr. Deo explained that due to Mr. Ahuja's pending retirement, Ms. Tosini will serve as FRTIB's Chief Risk Officer during the transition and will provide the update on the operational and financial health of nine of FRTIB's key vendors. See "Quarterly Vendor Financial Assessment" (attached). Ms. Tosini reported there was no indication that any vendor will be unable to fulfill their contractual obligations to FRTIB.

5. CY 2020/2021 Board Meeting Calendar Review

Mr. Deo discussed the remainder of this year's meeting calendar and previewed next year's meeting calendar. See "2020 Board Meeting Calendar" and "2021 Board Meeting Calendar" (both attached). Meetings in 2021 will be moved to Tuesdays, from Mondays, to accommodate those Board members who live on the West

Coast. Decisions about whether each of remaining 2020 meetings will be held telephonically will be made by the 30th of the preceding month.

6. Fiscal Year 2021 Budget Review and Approval

Ms. Crowder reviewed FRTIB's key activities and operational highlights in 2020. See "FRTIB Annual Budget Presentation" (attached). FRTIB handled 119 million contributions totaling 29 billion dollars, handled 550,000 forms and mailed more than 17 million pieces of communication, answered 2.6 million calls and managed average assets of 640 billion dollars for six million participants. In FY 2020, FRTIB implemented two-factor authentication, launched the five-year L Funds, implemented SECURE Act and CARES Act provisions, launched a new TSP website and on October 1, 2020, will launch the five percent auto enrollment. In addition, FRTIB improved its overall FISMA maturity and, as of the end of August, successfully closed 112 audit recommendations.

Mr. Deo presented the FY 2021 proposal and requested 498.4 million dollars for FY 2021, an increase from FY 2020's 385.6 million dollars, primarily due to the recordkeeping services acquisition (RKSA) procurement. RKSA will take between 18 and 24 months for transition, and during that time, FRTIB will fund the transition to the new recordkeeper while also continuing to fund the operations of the TSP.

In addition to RKSA, FRTIB will be modernizing and integrating its internal financial systems while also moving to a managed security service and improving IT infrastructure. FRTIB is also procuring and implementing an integrated risk management tool and expanding the role-based training program. Further, the FISMA audit is underway, and Mr. Deo anticipated reporting in coming months the Agency's FISMA scores and improved vulnerability management posture. FRTIB will continue to focus on audit remediation with expanding the assessment of key controls, conducting ongoing risk mitigation activities, and continuing to enhance FRTIB's FISMA maturity.

Mr. Deo then presented a five-year budget projection. The FY 2021 budget presentation differs from past years' budget presentations, which would only show a two-year budget projection, due to the RKSA transition. While there are increases in FY 2021 and FY 2022 budgets when compared to past years, once the transition is complete, the budget is expected to fall in FY 2023, FY 2024 and FY 2025. Similarly, participant expenses climb in FY 2021 and FY 2022 to 7.6 and 7.0 basis points, respectively, and after RKSA transition, it is expected that participant expenses will be lower than FY 2020's expense ratio.

Acting Chairman Jones complimented Mr. Deo, Ms. Crowder and their team for consistent accuracy of the budget process. He explained that the Board was prepared for the increased budget request for FY 2021 due to the many discussions with the Board over the last couple of years. Member Bilyeu reiterated Acting Chairman Jones' comments and stated that she understood the increase caused by running two systems concurrently until the transition is complete. Member McCray noted the

significant payback that participants will receive due to increased services and efficiencies.

Acting Chairman Jones entertained a motion for approval of the FY 2021 Budget. The following motion was made, seconded, and adopted without objection:

MOTION: That the FY 2021 Budget be approved.

7. External Audit Update

Brack Boone, Office of Enterprise Risk Management, delivered an update on two recently completed external audits, the annuity operations audit and the insider threat controls audit. See "Audit Status – September 2020" (attached). KPMG found no instances of noncompliance relating to the annuity operations. Regarding the insider threat controls audit, KPMG determined that FRTIB did not implement controls to prevent and detect insider threats. KPMG issued no new recommendations, and five older audit recommendations remain open. FRTIB is in the process of working on those open recommendations.

8. Internal Audit Update

Barbara Holmes, the Chief Audit Executive, delivered the update on internal audit activities. See "Internal Audit Update" (attached). FRTIB has completed the budget process audit and the government purchase card audit. The special processing unit audit is in progress, and the contractor onboarding and offboarding audit is currently being scoped. The annual 2020 FISMA audit is also underway.

The government purchase card audit yielded two medium risk findings, one of which related to current practices not aligning with documented procedures and the other relating to the government purchase card log. Both findings will involve a corrective action plan and will be tracked. The audit also yielded a low risk finding relating to tax exemption status. As a low risk finding, the risk was accepted without remediation and will not be tracked.

Other audit activities include independent validation and verification of 18 OTS remediation packages. Two are rated high, and 16 are rated medium. Eight have been reviewed and closed, three are almost closed and the remainder are in progress. In response to Member Bilyeu's question, Ms. Holmes reported the two high risk rated remediations remain in progress.

Ms. Holmes concluded by discussing the status of all internal audit findings. Acting Chairman Jones encouraged Ms. Holmes to contact him if necessary to discuss any concerns.

9. Conclusion

Mr. Deo thanked Acting Chairman Jones and Member McCray for their service to the Board considering the possibility that this may be their final Board meeting. Member Bilyeu reiterated Mr. Deo's comments, thanking Member McCray and Acting Chairman Jones. Member McCray commented on the hard work that the staff and the Board members have done over the years, and Acting Chairman Jones remarked it has been an honor to serve on this Board.

10. Adjourn

On a vote taken by the Acting Chairman, the members closed the meeting at 10:48 a.m. for executive session.

At 12:13 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 Acting Chairman Jones adjourned the meeting at 12:13 p.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
Acting Secretary

Attachments

1. August 2020 Performance Review – G, F, C, S, I, and L Funds
2. Quarterly Vendor Financial Assessment
3. 2020 Board Meeting Calendar
4. 2021 Board Meeting Calendar
5. FRTIB Annual Budget Presentation
6. Audit Status – September 2020 (external audit)
 - a. Annuity operations audit
 - b. Insider threat controls audit
 - c. Prior year audit
7. Internal Audit Update