

MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 27, 2015

Dana Bilyeu, Acting Chairwoman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 27, 2015, at 8:31 a.m., Eastern Time. Parts of the meeting were open to the public and parts of the meeting were closed 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; Greg Long, Executive Director; James B. Petrick, Secretary and General Counsel; Mark E. Walther, Chief Operating Officer; Renée C. Wilder Guerin, Acting Director, Office of Participant Operations and Policy; Susan C. Crowder, Chief Financial Officer; Gisile Goethe, Director, Office of Resource Management; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Scott Cragg, Chief Technology Officer; Ravindra Deo, Chief Investment Officer; Karen Vaughn Peck, Acting Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the September 10, 2015 Board Member Meeting

Acting Chairwoman Bilyeu entertained a motion for approval of the minutes of the September 10, 2015 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 10, 2015 be approved.

2. Monthly Reports

Mr. Long gave opening remarks, including a brief summary of the agenda for the meeting. Mr. Long also announced that Mr. Witherspoon will be serving as Executive Advisor for the next twelve months, and thanked Charles Bradshaw for his service as outgoing Executive Advisor.

a. Monthly Participant Activity Report

Ms. Wilder Guerin reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Ms. Wilder Guerin stated that the Plan balance continues to reflect the turmoil in the market, noting that the Plan balance for September was \$443 billion, down from a high in July of about \$460 billion. Ms. Wilder Guerin stated that participation held steady at 88.5 percent, noting that, as expected, there were higher withdrawals at the end of the summer.

b. Legislative Report

Ms. Weaver stated that the House and Senate passed the Defense Authorization bill, which included a provision for automatic enrollment for uniformed services members. Ms. Weaver noted that although the President recently vetoed the bill, she is confident that the House and Senate will work on completing the budgetary changes needed to enact the legislation. Ms. Weaver also highlighted that the House unveiled a budget bill that would also extend the debt ceiling through March of 2017, noting that otherwise the debt ceiling would be reached on November 3, 2015. Ms. Weaver will continue to monitor the legislation, but stated that there is nothing currently in the bill that would affect the TSP.

3. Quarterly Reports

a. Investment Policy Report

Mr. Deo reviewed the monthly investment policy report. See "September 2015 Performance Review – G, F, C, S, I, and L Funds" (attached). BlackRock outperformed the index in the F Fund by 7 basis points for the month, primarily due to securities lending. BlackRock outperformed the index in the S fund by 6 basis points, primarily due to securities lending, and in the I Fund by 8 basis points, primarily due to the tax effect.

For the year to date, BlackRock has outperformed in the F Fund by 33 basis points due to pricing differences and securities lending; in the S Fund by 32 basis points due to securities sampling and securities lending; and in the I Fund by almost 1 percent, which is primarily due to a reversal of the fair value from December 31, 2014. This month the C, S, and I Funds all fell, primarily due to fears over China's economy, while the F Fund increased due to a fall in interest rates by 15 basis points. For the month through October 26th, the C Fund is up by 7.99%, the S Fund increased by 5.1%, the I Fund is up by 8.24 percent, and the F Fund is up 0.46%.

Acting Chairwoman Bilyeu 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.

b. Vendor Financials

Mr. Ahuja provided an overview of the Quarterly Vendor Financial Assessment. See "Quarterly Vendor Financial Assessment" (attached). Mr. Ahuja stated that every six months, the Agency takes a deeper dive into vendors. Mr. Ahuja highlighted the findings for the following three privately-held vendors: (1) SunGard; (2) The Active Network, Inc.; and (3) 365 Data Centers.

In August 2015, Fidelity National Information Services Inc. agreed to acquire SunGard. Mr. Ahuja stated that SunGard provided assurance to the FRTIB that this acquisition would not affect ongoing business with the Agency.

Mr. Ahuja also provided an overview of The Active Network, Inc., another privately-held company. Mr. Ahuja noted that given the current analysis of the vendor, the Agency finds no indication that Active Network is unable to fulfill its contractual obligations to the FRTIB, but stated that the Agency will continue to monitor the company's financial posture.

Finally, Mr. Ahuja provided an overview of 365 Data Centers, a limited liability corporation which owns and operates the backup data center for FRTIB in Pittsburgh, PA. 365 Data Centers maintains 17 data centers, each of which is a separate holding company. Mr. Ahuja stated that the company incurred a loss last year, which could have an impact on FRTIB, although the Agency plans to have contingency measures in place to account for this additional risk. OERM will ensure the Board is apprised of any new developments and will continue to monitor the situation.

c. Audit Status

Mr. Ahuja provided an update on Agency audit activity actions, and highlighted any changes from the last update in July 2015. Mr. Ahuja reported that there were 6 completed audits, 8 audits currently underway, 5 audits scheduled for FY 2015 that will be moving to FY 2016, and 14 new audits, noting that the Agency would support the Employee Benefit Security Administration (EBSA) at the Department of

Labor in a total of 19 audits in FY 2016. Mr. Ahuja reported that of the 127 open audit findings, the Agency considers 92 to be closed, and will continue to work to resolve the remaining 35 open audit findings.

Mr. Long stated that the Agency is still working out the details with the proposed FY 2016 audit calendar. He noted that the Agency is working with DOL on the impact the schedule would have to FRTIB's resources, and stated he expects the Agency will make substantial progress in closing remaining audit findings in FY 2016.

d. Budget Review

Ms. Crowder provided an update on the budget, stating that the FY 2015 budget allocation was tightly aligned to predictions, and that the Agency was able to mitigate budget risks through various procurements.

e. Project Activity Report

Ms. Vaughn Peck provided an update on the Agency's active projects, stating that there are 15 active projects. Ms. Vaughn Peck reported two new projects were added, and two projects were closed out, but the overall number of projects remains the same as last quarter. Mr. Long highlighted the L Fund Default project, noting the positive impact this project will have on TSP participants. Mr. Long explained that as a result of this project's successful completion, participants will now be defaulted into an age-appropriate lifecycle fund. Board Member Jones congratulated the FRTIB and asked how the Agency planned to communicate the initiative to participants. Mr. Courtney responded that the lead article on the Agency's website highlighted the initiative. In addition, new participants will learn about the default investment through a "Welcome Letter" from the TSP, as well as in their first quarterly statement.

Ms. Vaughn Peck resumed her presentation and pointed out that the CAMs project will be closed out and reinitiated. Mr. Long stated that the Agency has learned a lot in the project management area over the past 6 years.

4. Capital Market and L Fund

Mr. Deo introduced Mercer's Capital Market and L Fund presentation. See "Federal Retirement Thrift Savings Plan: Mean-Variance and Efficient Frontier Analysis" (attached). Mr. Deo highlighted that Mercer looked at economic assumptions, market assumptions, and participant demographic data with the goal of producing improved outcomes for the participants. Jay Love, Partner at Mercer and Andrew Scheufele, Actuary, from Mercer reviewed their report and recommended that the Board renew a temporary shift from the F Fund to G Fund due to continued low interest rate environment. Mercer also recommended that the Agency change the allocation of the I Fund to 30% of equity assets for all L Funds. Finally, the report recommended decreasing the S Fund allocation for longer dated funds to 25% of domestic equities trending down to 20% to align with market cap. At the conclusion of Mercer's

presentation, Mr. Long outlined the reasons for why Mercer took a conservative approach to its modeling, noting that it was largely due to market volatility. Board Member Jasien urged Mr. Long to bring the TSP terminology in line with industry standards, with consideration of using the terms "portfolios" or "strategies" over "funds." Board Member Jasien also recommended that the L Funds move to a risk/reward profile more consistent with industry averages. Mr. Long stated that he and Mr. Deo would continue to work with Mercer and Mr. Courtney to examine these issues.

5. Investment Policy

Mr. Deo provided a brief overview of Aon Hewitt's Investment Policy report, stating that the Agency is taking a close look at its investment policy from a risk mitigation perspective. See "Strategic Investment Operations Review Index Fund Management" (attached). Russ Ivinjack, Senior Partner at Aon Hewitt and Kristen Doyle, Partner and Head of Public Pension Funds, at Aon Hewitt, reviewed their report. Ms. Doyle outlined the key risks related to the investment management structure of the index funds in the TSP that they identified, concluding that, while very small, organizational concentration risk exists because a single firm currently manages all index fund investments.

To address this remote risk and further the interest of the TSP's participants, Aon Hewitt recommended using two index fund providers for each TSP fund. Mr. Long led a brief discussion with the Board about the recommendations outlined in Aon Hewitt's report, recommending that the Board approve a two-fund manager structure for each of the C, S, F, and I Funds, stating that the anticipated change in structure would take effect no sooner than 2018.

Acting Chairwoman Bilyeu entertained a motion to use two index fund providers for each TSP fund. The Board members made, seconded, and adopted the following recommendation by unanimous vote:

MOTION:

That the Board approve the use of two index managers to manage each of the C, F, S, and I Funds. Further, the Executive Director, the staff of the FRTIB, and any investment management consultants as needed shall be directed to study the implementation issues this decision raises and provide further information.

Mr. Long concluded by stating that he and his staff will provide information to the Board on how best to implement this recommendation over the next 6 months.

6. Mid-Year Financial Review

Mr. Ahuja introduced CliftonLarsonAllen's (CLA) mid-year financial report. See "Independent Auditors' Review Report" (attached). Mr. Ahuja stated that the

financial year ends December 31. This midterm review covers financial statements from January 1, 2015 through June 30, 2015. Mr. Ahuja stated that the final report on the 2015 financial statements will be presented to the Board at the April 2016 Board meeting. Michele Chalmers, Principal at CLA, reviewed the report, which focused on procedures and controls over financial data and principally analytical procedures. Ms. Chalmers stated that CLA was not aware of any material modifications that should be made to the June 30, 2015 interim financial statements, and stated that CLA did not express an opinion regarding internal controls. Ms. Chalmers concluded the presentation by summarizing 4 open recommendations. She noted that the Agency identified 19 systems which require a security authorization, 4 of which had yet to receive authorizations to operate, but stated the Agency plans to complete these authorizations by December 31, 2015.

7. ORM Report

Ms. Goethe and Ms. Hanmer presented a report on the updates to the FRTIB's Human Capital plan. See "Human Capital Update" (attached). Ms. Goethe began by reviewing the 2015 Federal Employee Viewpoint Survey (FEVS), highlighting the Agency's progress since the 2014 FEVS was released. Ms. Goethe stated the FRTIB continues to score significantly above the Government-wide averages, and is ranked in the top 10 (among 41) Small Agencies for Employee Engagement and Global Satisfaction. Ms. Hanmer provided an update on the Human Capital Initiative, highlighting that the Agency increased its hiring progress in the past year, which is now at 83 percent of the Agency's available full-time equivalent (FTE) positions. Ms. Hanmer also provided an update on the progress of several Human Capital initiatives in the areas of Leadership & Knowledge Management, Strategic Alignment, Performance Culture, and Talent Management.

8. Calendar

Mr. Long presented the Fiscal Year 2016 meeting calendar to the Board. See "Draft 2016 Calendar" (attached). Items of discussion included: scheduling telephonic meetings; scheduling conflicts; and the possibility of moving the September meeting. The Board decided to change the September meeting, which will now occur on September 19, 2016. Mr. Long concluded his presentation.

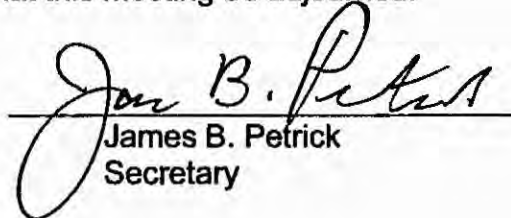
9. Closed Session

On a vote taken by Acting Chair Bilyeu, the members closed the meeting at 11:32 a.m. for Executive Session. At 12:59 p.m., upon completion of the Executive Session, the members reconvened the open portion of the meeting.

10. Adjournment

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection, and Acting Chairwoman Bilyeu adjourned the meeting at 12:59 p.m.

MOTION: That this meeting be adjourned.



James B. Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. September 2015 Performance Review – G, F, C, S, I, and L Funds
3. Quarterly Vendor Financial Assessment
4. Federal Retirement Thrift Savings Plan: Mean-Variance and Efficient Frontier Analysis
5. Strategic Investment Operations Review Index Fund Management
6. Independent Auditors' Review Report
7. Human Capital Update
8. Draft 2016 Calendar