

MINUTES OF THE MEETING OF THE BOARD MEMBERS

November 29, 2016

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on November 29, 2016, at 8:30 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 Dana K. Bilyeu of Oregon, member (by telephone); Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Greg Long, Executive Director; Megan G. Grumbine, Secretary and General Counsel; Ravindra Deo, Acting Chief Operating Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; James Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Jay Ahuja, Acting Chief Technology Officer; Anne Beemer, Acting Chief Risk Officer; Sean McCaffrey, Acting Chief Investment Officer; Sophie Dmuchowski, Deputy Director, Office of Participant Operations and Policy; Renée C. Wilder Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the October 31, 2016 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the October 31, 2016 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 October 31, 2016 be approved.

2. Monthly Reports.

Mr. Long gave opening remarks, including a brief summary of the agenda for the meeting.

a. Monthly Participant Activity Report

Ms. Dmuchowski reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Ms. Dmuchowski noted that the Plan's assets under management decreased slightly to 4.8 billion dollars as a result of market fluctuation. Roth balances increased by 1.8 percent to nearly 5.5 billion dollars and the Roth participant count increased to 837,032. In addition, Ms. Dmuchowski noted that, despite the floods in Louisiana and Hurricane Matthew, hardship withdrawals dropped from 11,000 in August to 9,045 in October. Mr. Courtney highlighted that the Plan crossed the 5 million participant mark in November. Ms. Dmuchowski stated that the

Plan participation rate will likely go down slightly at the end of the year as it typically does as some participants reach the elective deferral limit.

b. Legislative Report

Ms. Weaver noted that there is one change to the oversight committees as a result of the recent election. Senator Ron Johnson will remain the chairman of the Homeland Security and Governmental Affairs Committee, but Senator Carper, the ranking member, will be replaced by Senator Claire McCaskill of Missouri. Representatives Jason Chaffetz and Elijah Cummings will remain the chairman and ranking member, respectively, of the House Committee on Oversight and Government Reform. In addition, Ms. Weaver noted that the National Defense Authorization Act, which deletes a new definition of separation that would have been problematic for administering the Plan, will almost certainly be passed before Congress recesses.

c. Investment Policy Report

Mr. McCaffrey reviewed the monthly investment performance report. See "October 2016 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey indicated that in October, BlackRock's performance for the F, C, S and I Funds was in line with benchmarks. For the year-to-date, the F, C, S and I funds are ahead of benchmarks. BlackRock has outperformed in the F, C, and S Funds by 27 basis points, 7 basis points, and 45 basis points, respectively, for the year, primarily due to securities lending. BlackRock has outperformed in the I Fund by 112 basis points for the year, primarily due to the reversal of a fair pricing adjustment on December 31, 2015.

Mr. McCaffrey noted that interest rates were trending higher in October and continue to do so at an accelerated pace in November because of speculation that the economy will get on a higher growth track. He mentioned that according to news reports, expectations for a Fed rate hike by the end of the year are very high. Also, the dollar has climbed to multi-year highs. Mr. McCaffrey explained that so far in November the F Fund is down 2.22 percent, mostly attributable to the significant increase in Treasury rates, the C and S Funds are up 3.8 percent and 8.19 percent, respectively, because of expected economic growth, the I Fund is down 2.07 percent, because of the dollar's strong rally.

3. Quarterly Reports.

a. Quarterly Performance Measurement Report

Mr. Geof Nieboer of the Office of Enterprise Planning provided an overview of the Agency's performance metrics for the fourth quarter of fiscal year 2016. See "FRTIB Performance Measurement Report: 4th Quarter Fiscal Year 2016" (attached). Mr. Nieboer explained that measures report green when the Agency has met or exceeded its target, yellow when the Agency has met its threshold but is short of

its target, and red if the Agency has fallen short of its threshold. Measures that are reported annually are blank in the quarterly report, and Mr. Nieboer covers the report on an exception-only basis.

Mr. Nieboer noted that, although the FERS participation rate is yellow, the Agency continues to see incremental improvement in this metric. He indicated that the Agency is currently refining its participation behavior models and predicts that the target 90 percent participation rate will be exceeded in approximately the summer of 2017. Mr. Nieboer further noted that the one-year FERS post-separation retention rate, which is reporting green, reflects the corrections made earlier this year to the algorithm used to calculate this metric.

Mr. Nieboer continued to report that the external audit finding closure rate is reporting red this quarter because only five of the 63 audit findings scheduled to close this quarter were closed. He indicated that this is a result of the Agency's commitment to close findings permanently by fixing their root causes, which takes longer than a temporary fix. Chairman Kennedy asked about anticipated audit closure rates for the first quarter next year and Mr. Nieboer indicated that he anticipates this metric remaining red. Mr. Long noted that the re-baselining effort discussed in the October Board meeting has now been completed.

b. Project Activity Report

Mr. Stephen Huber of the Office of Enterprise Planning provided an update on the state of the Agency's projects (attached), which are also reported on an exception basis. The two factor authentication project under the enhancing information security and operations portfolio is reporting yellow due to more time needed for the activation of privileged users resulting from unanticipated technical issues that were detected recently. Measures are being taken to resolve these issues expeditiously. Mr. Huber noted that the security monitoring and reporting metric under this portfolio, which is currently reporting red, is trending yellow because an expedited order for additional physical security storage was placed and received and the team is currently working to install it.

Finally, Mr. Huber mentioned that under blended retirement portfolio, the data archiving, DSUB, and ThriftLine initiatives have been realigned to provide better oversight and coordination. He noted that these initiatives are still in the planning phase and are expected to go to baseline within the next quarter.

4. Office of Investments Report.

Mr. McCaffrey presented an overview of the Office of Investments ("OI"). See "OI Annual Review" (attached). He noted that OI has a new analyst position open that it hopes to fill in the second quarter of the fiscal year. Mr. Long, in response to Member Jasien's question, indicated that the position was opened on October 1, 2016.

Mr. McCaffrey spoke about OI's focus on developing and implementing investment policy and providing subject matter expertise. Mr. McCaffrey mentioned OI's key activities, which include developing and maintaining written investment policies and procedures, conducting annual reviews of the L Fund asset allocation, the day-to-day supervision of the Agency's investment manager, BlackRock, and providing subject matter expertise to the Agency as needed.

Mr. McCaffrey discussed 2016 OI highlights, including obtaining Board approval for a two investment manager structure, implementing L Fund glide path changes, securing the services of four investment consultants under a multiple award, indefinite delivery/indefinite quantity contract, making changes related to securities lending, auditing BlackRock and the L Funds, and reviewing the asset allocation of the L Funds. Mr. Jasien asked for more details regarding the securities lending changes. Mr. McCaffrey and Mr. Deo stated that one change involved an industry-wide change to a securities lending benchmark to use a more transparent benchmark referred to as OBFR. Mr. McCaffrey noted that the second change is that the collateral pools for the F, C, S, and I Funds, which used to be managed separately, have been combined to provide better liquidity and allow the Plan to stay more invested on behalf of the funds overall, in the hopes of creating better return.

Finally, Mr. McCaffrey previewed OI projects for the next year, including the mandated L Fund asset allocation review and BlackRock audit, two investment manager implementation planning, evaluation of the asset classes used in the Plan, and re-competition of the F Fund investment manager contract. Chairman Kennedy asked about the timing for implementing the two manager system. Mr. McCaffrey indicated that the target date continues to be October 2018. Mr. Long noted that the new system requires operational changes, which are being handled by the Office of the Chief Financial Officer, in addition to the investment changes handled by OI. Mr. Jasien also asked whether OI works with the Office of Communications and Education on participant education. Mr. McCaffrey and Mr. Courtney indicated that the two offices do coordinate on messaging.

5. Capital Market and L Fund

Mr. McCaffrey introduced Mercer's Capital Market and L Fund presentation. See "Thrift Savings Plan: Lifecycle Fund Asset Allocation" (attached). Mr. McCaffrey highlighted that Mercer looked at economic and market assumptions, projections for the TSP Fund returns, 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 retain the current C, S, and I Fund weights along the glide paths for the L Funds. They further recommended retaining the current overweight G Fund position as well as the phase out of this overweight.

Member Jasien asked whether the Agency has considered adding alternative investment strategies. Mr. Long and Mr. McCaffrey indicated that the

Agency has in the past and will continue to do so in the future. Members Jasien and Jones, along with Chairman Kennedy requested that the Agency evaluate the merits of switching the L Fund glide paths from a "to retirement" to a "through retirement" strategy and present findings to the Board next year. Mr. Long indicated that Mr. McCaffrey would work with a consultant on this issue. Member Jasien also urged Mr. Long to bring the TSP terminology in line with industry standards, with consideration of using the terms "portfolios" or "strategies" over "funds." Mr. Long noted that the change in naming convention could be reflected in the communications in 2020.

6. 2017 Proposed Internal Audit Schedule

Mr. Henry Creque from the Office of Enterprise Risk Management provided a report on the 2017 proposed internal audit plan. See "Internal Audit Plan CY2017" (attached). Mr. Creque noted that the internal audit risk assessment methodology has changed this year from a Key Business Process/"Who's on First " approach to a process whereby Internal Audit first reviews all Agency policies and procedures to identify business processes, then reviews the Agency Key Business Processes to identify processes not covered in the policies and procedures, and finally participates in process discussions with each Office Director to identify any additional processes.

Mr. Creque addressed the development of the internal audit plan and proposed future audits for Agency travel cards, the release management process, the Omni application, the procurement and contract management process, the vendor management process, and the cyber security and incident response process. Member McCray requested that the Board be notified in the event of any change to the auditing schedule. Chairman Kennedy asked about the prioritization of the six proposed audits and which was the most important. Mr. Creque responded that the release management process will likely be the Agency's highest risk area; however, he noted that scheduling prioritization may vary based on other factors.

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

MOTION: That the proposed 2017 internal audit plan be adopted.

7. Blended Retirement Update.

Thomas Emswiler, Senior Advisor for the Uniformed Services, and Mr. Tanner Nohe, Project Manager for the Blended Retirement Project provided an update on the Blended Retirement Project. See "Blended Retirement Project" (attached). According to Mr. Emswiler, the programmers at the Defense Finance and Accounting Service have indicated they are on track with respect to updating the system for Blended Retirement. Mr. Emswiler also noted that the Department of Defense has now rolled out its class for the personal financial managers who will help members of the uniformed services decide whether or not to opt-in to Blended Retirement. Member

Jasien asked how many financial managers will be trained. Mr. Emswiler indicated that he did not know and Mr. Long stated that the Agency would find out. Finally, Mr. Emswiler reported that the Blended Retirement Project is being audited by the Department of Labor with the help of KPMG, the first meeting went very well, and he is looking forward to the audit as it will help the Agency be ready to implement the project on January 1, 2018.

Mr. Nohe noted that the National Defense Authorization Act should be passed shortly, as indicated earlier by Ms. Weaver, and will not affect the scope of the Blended Retirement Project. He indicated that the task order for the Programming and Capacity Study has been awarded and everything is moving forward. Mr. Nohe stated that the preliminary capacity study was received and, although it took a bit longer, the system was able to process the increased enrollments and contributions in the test environment. Mr. Nohe indicated that the Blended Retirement Project affects only 13 contracts, all of which are either being modified or re-competed before 2018. He noted that necessary updates to communications material has commenced as has preparation for the upcoming audit. Finally, Mr. Nohe reviewed the accomplishments to date and the high level risks to the project.

8. Executive Session.

On a vote taken by the Chairman, the members closed the meeting at 10:32 a.m. for executive session.

9. Adjourn.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 1:14 p.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. October 2016 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB Performance Measurement Report: 4th Quarter Fiscal Year 2016
4. FRTIB Key Activity Report 4th Quarter FY '16
5. Office of Investments Annual Review

6. Thrift Savings Plan: Lifecycle Fund Asset Allocation
7. Internal Audit Plan CY2017
8. Blended Retirement Project