



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

November 28, 2017

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on November 28, 2017, 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; Ronald D. McCray of Texas, member (by telephone); 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, Deputy Executive Director, and Acting Chief Technology Officer; Kimberly A. Weaver, Director, External Affairs; William Jacobson, Deputy Chief Financial Officer; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Tee Ramos, Director, Office of Participant Services; 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 23, 2017 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the October 23, 2017, 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 23, 2017 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 noted that FERS and uniformed service active duty participation rates remained static in October 2017. The FERS participation rate had a marginal decrease, which Mr. Ramos explained was a normal trend for the end of the year. Requests for TSP loans and hardship withdrawals decreased in 2017, and are projected to be 8 percent and 4 percent lower than 2016. In

October 2017, TSP processed 607 hardship withdrawals for Hurricane Harvey; 1,136 for Hurricane Irma; and 179 for Hurricane Maria.

b. Monthly Investment Performance Report

Mr. Deo reviewed the monthly investment performance report. See "October 2017 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo reported that for the month of October, performance for the F, C, S, and I Funds was in line with indices.

For the year-to-date, the I Fund was ahead of the benchmark by 40 basis points, primarily due to tax advantage. The F Fund was ahead of the benchmark by 27 basis points and the S Fund outperformed the benchmark by 13 basis points, both primarily due to securities lending. The C Fund was essentially in line with its benchmark. For October month-to-date through Friday, the F Fund is up 0.20%, the C Fund is up 1.24%, the S Fund is up 1.60% and the I Fund is up 1.19%.

c. Legislative Report

Ms. Weaver reported that the withdrawal bill was signed by the President and became law on November 17, 2017. TSP has already started receiving inquiries from participants concerning the advantages and flexibilities established by this new law. Ms. Weaver concluded by noting that the funding bill for the rest of the Government will expire on December 8, 2017. She noted that Congress was considering extending government funding for two weeks, while it worked on the spending bill, tax plan, and other initiatives.

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 2017. See "FRTIB Performance Measurement Report: 4th Quarter Fiscal Year 2017" (attached).

He noted that audit finding remediation remains a major focus for the Agency. Mr. Nieboer also reported on the participation rate and full matching contribution rate metrics. There was a marginal decrease in both rates from the previous quarter. The decrease was due to an end-of-year decline trend that was commonly seen and caused by participants who contribute a high percentage of income at the beginning of the year causing them to reach the annual contribution limit before the end of the year and cut-off contributions early.

In response to Board member questions on participant education and communication efforts, Mr. Courtney shared that messaging around contribution limits

was one-to-many, not personalized to each individual. Direct messaging to individuals regarding their personal situation was an initiative for the future.

b. Project Activity Report

Mr. Stephen Huber of the Office of Enterprise Planning provided an update on the state of the Agency's projects. See "FRTIB Key Activity Report 4th Quarter FY 2017" (attached). He highlighted the completion of the password reset project. AMI/CFIS and the Enterprise Space Management projects have met some scheduling challenges, but should be back on track soon.

4. Capital Market and L Fund Annual Asset Allocation Review

Mr. Sean McCaffrey, the Deputy Chief Investment Officer, introduced Andrew Scheufele, Jacob Goldberg, and Jay Love from Mercer Investment Consulting (Mercer), who discussed Mercer's Lifecycle Fund Asset Allocation review. See "Lifecycle Fund Asset Allocation" (Attached). The objective of Mercer's review was to review if the glide paths should be changed from their current state to more equity-oriented alternatives. Mr. McCaffrey noted that Mercer used a subset of the entire FERS active employee population that used L Funds rather than using the entire population for the study, since that was a more relevant group. He also noted that the review used a retirement age of 62 rather than 61, which was used in past reviews, based on data showing that the average retirement age has increased to 62. Mercer was asked to include in its study a "Through" retirement set of glide paths, so the Agency could evaluate a full set of choices.

Mr. McCaffrey presented the Office of Investments response to the Mercer review indicating that the Office of Investments was not recommending a change to the "Through" design at this time, pointing to risk-to-return tradeoffs and the nascence of the L-Fund default for new participants. Mr. McCaffrey noted that the pending launch of Blended Retirement could meaningfully impact the demographics of the plan and OI desires more time to study that potential impact on the L Funds.

Several Board Members expressed support for continuing to explore a "through" design glide path and requested that the Office of Investments bring a recommendation back to the Board in the near future. Member Jasien also recommended the Agency refer to the Funds as strategies or portfolios rather than Funds, which was consistent with the practices of the rest of the retirement industry. Member Jasien asked Mercer whether they considered changing the study from 10-year to 5-years. Mr. Scheufele explained that the change to 5 year increments would not change the review results.

Mr. Deo also noted that the Agency would consider making changes to the glide path. He also noted that 5-year funds will be rolled out in 2020 when the L 2020 Fund was scheduled to roll into the L Income Fund.

5. TSP Investment Option Benchmark Study

Mr. McCaffrey introduced representatives from Aon Hewitt Investment Consulting (AON), Russ Invinjack and Bill Ryan, to present their Benchmarking Study. The Agency requested that Aon review and evaluate the appropriate indexes to use for the following investment options: Common Stock Index Investment Fund (C Fund); Small Capitalization Stock Index Investment Fund (S Fund); Fixed Income Index Fund (F Fund); and the International Stock Index Investment Fund (I Fund). See "Benchmark Study" (attached). As part of its analysis, AON reviewed multiple indices/benchmarks for each investment option. The goal of the study was to determine if the indices currently in use are the most appropriate benchmarks for the Funds presently available to institutional investors. The study also encompassed a potential expansion of the I Fund benchmark that would include exposure to Canada and emerging markets. Based on its review, AON recommended that the Agency maintain: the S&P 500 Index as benchmark for the C Fund, Dow Jones U.S. Completion Total Stock Market Index as benchmark for the S Fund, and the Bloomberg Barclays U.S. Aggregate Index as benchmarked for the F Fund.

AON recommended the Agency replace the current I Fund benchmark, the MSCI EAFE Index, with the MSCI All Country World ex-U.S. Investable Market Index. Mr. Invinjack noted that the MSCI indices remained the most popular indices for U.S. based institutional investors investing in overseas equity markets. He also noted that MSCI All Country World ex-U.S. Investable Market Index would provide liquidity and long term benefits to TSP participants. The new index would include Canada, the fourth largest non-U.S. market, emerging markets, and the small-cap equities in those markets. The expansion of the I Fund would improve long term returns relative to risk. Mr. Ryan explained that long-term returns for non-U.S. equity markets appeared more favorable compared to the U.S. equity market.

Member Jones noted that the primary concern with the MSCI All Country World ex-U.S. Investable Market Index in the past was the lack of maturation of some of the emerging markets. Mr. Ryan responded that industry had evolved and liquidity would not be an issue.

Mr. McCaffrey concluded by indicating that the Office of Investments was recommending replacing the MSCI EAFE Index with the MSCI All Country World ex U.S. Investable Market Index. The target date for the change would be some time in 2019. The Board members made, seconded, and adopted the following motion without objection:

MOTION: That the indices for the C, S, and F Funds be unchanged from the S&P 500 Index, the Dow Jones U.S. Completion Total Stock Market Index, and the Bloomberg Barclays U.S. Aggregate Index respectively, and that the I Fund index change from the MSCI EAFA Index to the MSCI All Country World ex-U.S. Investable Marker Index and be executed by

the single investment manager chosen with the next re-compete of the investment manager.

6. 2018 Proposed Internal Audit Schedule

David Harvey gave a presentation on the CY 2018 Proposed Internal Audits Schedule. See "Internal Audit Update and Presentation of CY2018 Audit Plan" (attached). Mr. Harvey began his presentation with an overview of the Internal Auditing organization. He gave the status of the previously-approved engagements, including the TESS contract management and death benefits engagements. Mr. Harvey also proposed several audits for CY 2018, including the survey of compliance with laws and regulations; improper payment monitoring; and FY 2018 FISMA audit. The Board members made, seconded, and adopted the following motion without objection:

MOTION: That the proposed 2018 audit plan including the deletion of the incident response audit form the CY 2017 Audit Plan be approved.

7. Enterprise Risk Framework and Dashboard

Mr. Ahuja presented the Enterprise Risk Management Framework. See "FRTIB Enterprise Risk Assessment" (attached). This presentation provided an enterprise-wide portfolio view of risks taking into account risks that result from the Agency's operational activities and strategic initiatives. The presentation also included an explanation of a scoring mechanism to help prioritize risks. In addition, Mr. Ahuja presented a plan and timeline that displayed the Agency's efforts to develop risk treatment plans to mitigate the top five enterprise risks identified in the risk assessment.

Mr. Deo added that the Agency is focusing on the risk that would have the highest impact and likelihood of occurring.

8. Blended Retirement Update

Thomas Emswiler, Senior Advisor for the Uniformed Services, provided a report on the Blended Retirement project. See "FRTIB Blended Retirement" (attached). Mr. Emswiler noted that the Blended Retirement project was on track. The partnership between the Uniformed Services and TSP was a success.

Tanner Nohe, Project Manager for the Blended Retirement project, provided an update on the accomplishments, risks, and project status. Mr. Nohe noted that over 85 pieces of printed communications were revised or created by the Office of Communications (Communications). Communications also revised over 35 webpages and created three videos for the Blended Retirement Project. Mr. Nohe noted the team created two new bulletin for the project, which was the Agency's main way of communicating the Uniform Services payroll offices our requirements on what payroll layouts should include and how to send the Agency the files and reports. The team also

assisted and collaborated with the Department of Defense's (DoD) Twitter chats, Facebook initiative, and other social media promotions.

Mr. Nohe presented the new TSP booklet "Managing Your Accounts for Members of the Uniformed Services", which includes information for new participants enrolling in the TSP. He also highlighted a new fact sheet with Questions and Answers about Opting into the Blended Retirements System, and a new TSP Bulletin for Agency/Service Representatives. Mr. Nohe noted that the Agency received four public comments in response to the proposed rule for Blended Retirement. The team was updating the proposed rule to address the comments that were raised. The final rule should be published in mid-December 2017. He anticipated that the team would close the project after the first quarter of 2018, once the Agency received the first payroll files.

9. IT Update.

Ms. Tosini provided an update on IT initiatives. See "IT Update" (attached). Ms. Tosini reported there are eleven high-priority initiatives. The execution of these initiatives is progressing and tracking to schedule and all projects should wrap up by the end of December. Ms. Tosini highlighted the next phase of IT activities and indicated that the specifics for the activities would be developed over the next few months.

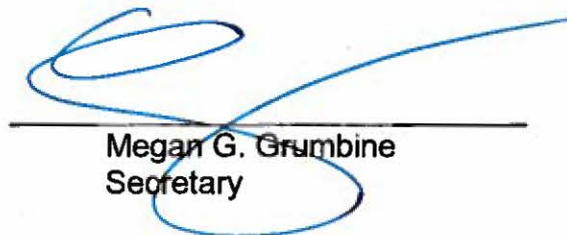
10. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 10:59 a.m. for executive session.

At 12:46 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 12:46 p.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. October 2017 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB Performance Measurement Report:
4. 4th Quarter Fiscal Year 2017
- 5a Lifecycle Fund Asset Allocation PowerPoint
- 5b Lifecycle Fund Memo
- 6a Benchmark Study PowerPoint
- 6b Benchmark Study Report
- 6c Benchmark Study Memo
7. Internal Audit Update and Presentation of CY2018 Audit Plan
8. FRTIB Enterprise Risk Assessment
9. FRTIB Blended Retirement
10. IT Update

