



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

December 17, 2018

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board (by telephone), convened a meeting of the Board members on December 17th, 2018, at 11:00 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 (by telephone), member; Ronald D. McCray of Texas (by telephone), member; David A. Jones of Connecticut (by telephone), member; William S. Jasien of Virginia (by telephone), member; Ravindra Deo, Executive Director; Megan G. Grumbine, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer; Vijay Desai, Chief Technology Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Miriam Settles, Deputy Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Sean McCaffrey, Chief Investment Officer; 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 November 27th, 2018 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the November 27th, 2018 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 November 27th, 2018 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 the uniformed services participation rate for active duty members continued to climb, currently to 56.1 percent, which is a 7 percentage point jump since January 2018.

Mr. Ramos reported that post-separation withdrawal volume is showing an increase of 15 percent over 2017, which is consistent with the OPM retirement report that indicated there is an increase in the number of TSP participants reaching retirement age.

Lastly, Mr. Ramos stated hardship withdrawal volumes have been trending downward for the last three months, and the run rate for the year is 2 percent lower than 2017.

#### b. Legislative Report

Ms. Weaver reported that there is a possibility of a government shutdown beginning December 21<sup>st</sup> at midnight, which would affect roughly 40 percent of the government. Ms. Weaver indicated there is information on the Agency website that is perennially dealing with furloughed employees and how that impacts access to their TSP account. Board Member Jasien inquired as to how the shutdown would affect FRTIB as an agency, to which Ms. Weaver responded there will be no impact on Agency operations, as FRTIB is self-funded and will be fully staffed during a potential shutdown.

Ms. Weaver also noted the committee leaders have been set for FRTIB's oversight committee. On the Senate side, Ron Johnson remains the chairman, and Gary Peters from Michigan is now the ranking member replacing Senator McCaskill. On the House side, Elijah Cummings, who was the ranking member, is now chairman, and Jim Jordan will be the ranking member on the House Oversight Committee. Ms. Weaver indicated the subcommittees have not yet been set on either side.

#### c. Monthly Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "November 2018 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for the month of November, performance for the F, C, and I Funds was in line with the performance of the Funds' respective indices for the month. For the S Fund, BlackRock outperformed the Small-Mid Cap Index by 8 basis points. This was primarily a result of securities sampling and securities lending.

For the year to date, BlackRock outperformed the Fixed Income Index by 17 basis points for the F Fund, primarily as a result of securities lending. Its performance for the C Fund was in line with the Large Cap Index. BlackRock's performance for the S Fund was ahead of the Small-Mid Cap Index by 28 basis points, primarily due to securities lending and securities sampling. Finally, BlackRock's performance for the I Fund was ahead of the International Index by 40 basis points, mostly due to tax effect.

Mr. McCaffrey noted that across global markets concerns persist about interest rates and trade policy coupled not only with some declining energy and technology shares, but also with uncertainty in European politics. These factors

continued to pressure stock prices through much of the month. Taken together, some investors have been worried about decelerating future earnings growth. Investor sentiment showed improvement in November's final days with the Fed Chairman's comments interpreted as less hawkish. U.S. stocks closed out the month with gains as a result. The C Fund and the S Fund were higher. The I Fund had a slight loss. Lower interest rates helped lift the F Fund to a gain. All of the L Funds produced positive returns.

For the current month through December 14, stocks are showing losses. The C Fund is down 5.72%. The S Fund has a loss of 7.06%. The I Fund is behind by 3.11%. The F Fund is at a gain of 0.92%.

Mr. McCaffrey pointed out that while inter-fund transfer activity continued to favor the G Fund, presumably as a safe haven, the levels of outflows from stock funds as being relatively muted when compared to those of certain previous months when stock market volatility also was high.

Mr. McCaffrey reported the L Funds reached a new milestone, where participation has now risen to over 2 million. Ownership of L Funds has been rising at a faster pace this year, largely as a result of Uniformed Services auto-enrollment and opt-ins to the Blended Retirement System. This activity is most evident in the L 2050 Fund.

Mr. McCaffrey provided an update on the use of external investment managers, which included plans to implement the Board's directive to hire two managers across each of the externally managed Funds. Mr. McCaffrey indicated his team will assemble and release a Request for Proposals for this requirement, and has drafted an approximately fifteen month schedule for the Agency to have the contracts awarded, though, the goal is to award them sooner if possible.

Lastly, Mr. McCaffrey stated the multi-manager effort, as it is known, includes the I Fund. This means two things: 1) FRTIB will suspend previously announced plans for the re-competition of the I Fund on a single manager basis because that effort will be bundled with the multi-manager initiative. 2) The second issue is that the planned transition of the I Fund benchmark from the MSCI EAFE Index to the MSCI ACWI ex-US IMI Index was intended to be assigned with the new I fund manager contract. That benchmark change will continue to await the assignment of a new primary manager for the I Fund. As a result, the benchmark transition should be concluded within 6 months of the new contract award, meaning the second half of 2020.

### 3. Audit Report Update.

Mr. Ahuja provided an update of the accomplishments of the Internal Audit Division within the Office of Enterprise Risk Management (OERM). See "Audit Reporting Activity Summary" (attached). Mr. Ahuja stated the main functions carried out by the Internal Audit Division are to focus on the effectiveness and efficiency of the

governance process of the Agency. The division also evaluates the risk management structures that are in place, and assesses internal controls within the business processes.

Mr. Ahuja reported the internal audit group is the furthest removed from risk, in the sense that risk emanates from agency offices. This makes agency offices the first line of defense, and each office is responsible for the overall governance and oversight mechanisms, including supply chain vendors. The second line of defense is the other component of OERM where risk and control functions bring the independent step of advisory services to all offices. This component is also responsible for assisting the various offices in the implementation of policies and procedures that govern FRTIB processes, and also assists them in implementing controls. Mr. Ahuja continued by stating the third line of defense is the Internal Audit Division, which is an independent entity, responsible for evaluating FRTIB's control environment and providing recommendations. Given the independence of this Division, there is a direct reporting structure, where Internal Audit Division reports to the Executive Director and FRTIB Board.

Mr. Ahuja reported the Auditor-in-Charge position is currently vacant, as the previous auditor left to take an external position. There are three auditors that report to the Auditor-in-Charge, two financial auditors, and one IT auditor. Mr. Ahuja stated that in addition to the internal staffing, OERM is supported by a CPA firm that conducts the FISMA audit, as well as another CPA firm that supports internal audit co-sourcing activities. Board Member McCray asked what the Agency's timeline was for filling the Auditor-in-Charge Vacancy, to which Ms. Tosini responded that the Agency was looking into whether the level of work required is actually at a higher level than a GS, and should be classified as a senior level position. A senior level classification will require permission from the Office of Personnel Management, and while the Agency is investigating this possibility, there will be a short term detail for an Acting Auditor-in-Charge.

Mr. Ahuja recapped the Internal Audit Division's 2018 activity, which included a total of 12 audits and assessments; one from 2016, seven from 2017, and four from 2018. Mr. Ahuja stated they have completed five of the audits, and deferred five audits until 2019, and have requested cancellation of the remaining two. The death benefits audit was completed, and the compliance audit produced findings with corrective actions currently underway. The Agency travel card audit has also been completed with corrective actions underway. Mr. Ahuja further noted there is an ongoing security baseline assessment, which looks at the different operating systems in FRTIB's environment, it has been substantially completed with an estimated completion of April 2019. Another audit that is carryover from the previous year, is the procurement and contract management audit, which is assessing how the Agency procures goods and services, and is expected to be completed by March 2019.

Mr. Ahuja continued with an update of the vendor management audit, which also looks at contract administration and oversight activities, and has an expected completion date of 2019. The fourth audit is the OMNI application audit, which looks at

the recordkeeping software, and requires coordination with SAIC, with hopes of completion by April 2019. The last audit is the improper payment monitoring, which was approved for 2018, and is being deferred to 2019. This audit looks at the vendor and benefit payments, to make sure they are proper, have the necessary approvals, and identify any deviations from the processes. Mr. Ahuja noted the two audits that have been cancelled are the release management audit and the cyber incident response audit, which are duplicated by the efforts of the Department of Labor and FISMA respectively, and do not justify the use of Agency resources.

Mr. Ahuja stated internal audit was also involved in Independent Verification and Validation, which included on-boarding a contractor to independently review audit closure packages. Also, the FISMA audit was completed in 2018 and demonstrated some success on the part of the agency as three of the eight FISMA domains showed improvement over last year's results moving up from a rating of "Ad Hoc" to the next rating level of "Defined".

Chairman Kennedy called for a motion to approve the 2019 internal audit plan as detailed in a December 17<sup>th</sup> memo. Board Member Bilyeu so moved, Mr. Jones seconded, and the Chairman Kennedy approved as the ayes carried.

4. Quarterly Vendor Financial Assessment.

Mr. Ahuja provided an update on the operational and financial health of nine of FRTIB's key vendors. See "Quarterly Vendor Financial Assessment" (attached). Mr. Ahuja reported that there are nine key vendors that are critical to FRTIB's supply chain success. There was no indication that any of these vendors would be unable to fulfill their contractual obligations to FRTIB. Mr. Ahuja stated OERM will continue to monitor these vendors on a quarterly basis, and any item that warrants attention will be reflected in the next quarterly report.

5. Enterprise Risk Management Update.

Ms. Francis and Ms. Walcott provided an update on Enterprise Risk Management. See "Enterprise Risk Management Update". Ms. Francis stated this assessment was a continuation of the prior year enterprise risk assessment process, which took into account the status of Agency-wide audit findings, risks identified in the previous risk assessment as well as internal control results. An Enterprise Risk Steering Committee was established to review the risks from all offices and make recommendations to Agency leadership. Ms. Walcott reported on the high level enterprise risk scores for fiscal year 2019. There are five high, eight medium-high, and eight medium. Ms. Walcott stated that for the medium and medium-high risk scores, offices are making outstanding progress with risk reduction efforts.

Ms. Francis reported on the upcoming key initiatives, which include promoting a more risk-aware culture, proactive risk mitigation, and implementation of

risk treatment plans to better help identify metrics and monitor reporting. Ms. Francis also stated OERM plans to focus on refining the Agency's methodology in collaboration with Agency offices to further mature the Enterprise Risk Management program.

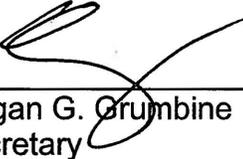
6. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 11:35 a.m. for executive session.

At 11:50 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 11:51 a.m.

MOTION: That this meeting be adjourned.



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Megan G. Grumbine  
Secretary

**Attachments**

1. Thrift Savings Fund Statistics
2. November 2018 Performance Review – G, F, C, S, I, and L Funds
3. Internal Audit 2019 Audit Plan
4. Quarterly Vendor Financial Assessment
5. Enterprise Risk Management Update