

MINUTES OF THE MEETING OF THE BOARD MEMBERS

September 19, 2016

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on September 19, 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; Jim 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; Tee Ramos, Director, Office of Participant Operations and Policy; Renée Wilder Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the minutes of the August 22, 2016 Board Meeting

Chairman Kennedy entertained a motion for approval of the minutes of the August 22, 2016 Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting that was held on August 22, 2016 be approved.

2. Monthly Reports

Mr. Long gave opening remarks, and indicated that the meeting would cover the monthly reports, an update on the blended retirement project, and the fiscal year 2017 budget request.

a. Monthly Participant Activity Report

Mr. Long provided an overview of the Monthly Participant Activity Report. See "Thrift Savings Fund Statistics" (attached). The civilian participation rate remained at an all-time high of 89.4 percent, and the uniformed services participation rate remained at 44.9 percent, as it had been for the past two months. There were 104 million dollars in roll-ins in the past month.

b. Monthly Investment Performance Report

Mr. McCaffrey reviewed the fund performance memorandum entitled "August Performance Review – G, F, C, S, I, and L Funds" (attached). BlackRock outperformed by five basis points in the S Fund primarily due to securities lending, while their performance in the F, C, and I funds was in line with their respective indices. For the year to date, BlackRock has outperformed by 22 basis points in the F Fund, 6 basis points in the C Fund, 45 basis points in the S Fund (all three primarily due to securities lending), and 110 basis points in the I Fund (primarily due to the reversal of a fair value adjustment on December 31, 2015). For the month of September, the F Fund is down 64 basis points through the previous Friday's close, the C Fund is down 1.37 percent, the S Fund is down 1.33 percent, and the I Fund is down 1.2 percent.

Finally, Mr. McCaffrey noted that real estate was recognized as an independent sector classification in the benchmark S&P 500 Index, as well as more broadly in the S&P Dow Jones and MSCI families of indices. This change simply reflects a reorganization of ten sector classifications into eleven sector classifications; it does not change overall index composition and has no impact on the equity funds themselves.

c. Legislative Report

Ms. Weaver said that the Agency was closely monitoring the DoD Authorization bill, but that it had been pushed to the lame duck session after the election. Otherwise, the Senate was expected to have a cloture vote to allow them to move forward on a continuing resolution to fund the government prior to the election, and that the House was expected to take the continuing resolution up after that.

3. Blended Retirement

Mr. Tom Emswiler and Mr. Tanner Nohe presented a status update on the blended retirement project to the board. Mr. Emswiler began with an overview of the project and then discussed the partnership between the project team and the Uniformed Services. He explained that as the Senior Advisor to the Uniformed Services he sat on the Department of Defense Executive Working Group where many of the major policy decisions were made for implementing blended retirement.

Mr. Emswiler noted that Rand Corporation reports anticipated one million new participants in 2018, but pointed out that the participation rate among uniformed service members was already 44.9 percent. Member Jasien asked how many existing accounts that participation rate reflected, and Mr. Long and Ms. Weaver confirmed that it accounted for roughly 730,000 accounts. Service members that make the switch to blended retirement with existing accounts do not create additional capacity requirements.

Mr. Nohe discussed the current tasks the project team was working on and the timelines for those tasks. He explained that the Agency was conducting a capacity study on its computer systems, was reviewing existing contracts to determine what modifications would be required, and was updating internal policies and procedures to account for the higher volume of participants in the Plan. Chairman Kennedy noted that the project team had built in time between September 2017 and the end of the year to address unforeseen issues, but asked if any of the existing challenges could delay the project timeline. Mr. Nohe answered that challenges may affect the timeline, but that the capacity study was intended to identify those challenges in advance and that the time built into the schedule was to resolve those challenges.

4. FY 17 Budget Review and Approval

Mr. Long and Ms. Crowder presented the FY17 budget request to the Board. Ms. Crowder provided a projection of the planned growth in the TSP, reviewed the FY16 budget, and then provided an overview of the FY17 budget request. Ms. Crowder explained that the planned growth in the TSP is based on the average net assets in the Plan to best estimate the gross administrative expenses and basis points for the budget request. She then explained that the FY16 budget was 220 million dollars, and that the Agency was requesting 257.2 million dollars for FY17.

Mr. Long then explained what the budget request would fund. He noted that over 90 percent of the requested money was for steady-state operations. He explained that the blended retirement project was one of the largest projects in the Agency's history and would require significant resources to implement. He then discussed the target architecture plan, which is a forward-looking project to streamline the agency's computer systems. He noted that the funding for the bulk of the target architecture plan was not included in the current FY17 budget request and that there would be a supplemental request to the Board for that effort.

With no further questions from the Board, the following motion was made, seconded, and adopted without objection:

MOTION: That the budget request of \$257.2 million for fiscal year 2017 be approved.

5. Quarterly Vendor Financial Assessment

Ms. Beemer presented the Quarterly Vendor Financial Assessment (attached). She noted that a Federal Judge rescinded MetLife's designation as a Systematically Important Financial Institution (SIFI) in March 2016, but that a Federal Appeals court was currently hearing an appeal of that rescission. She noted that BlackRock was still waiting for the Department of Treasury to make a determination on their status as a SIFI.

6. Executive Session

On a vote taken by the Chairman, the members closed the meeting for executive session at 9:30 a.m.

7. Adjourn.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 10:27 a.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. August 2016 Performance Review –G, F, C, S, I, and L Funds
3. Blended Retirement Project
4. FY 17 Budget Proposal and FY 18 Budget Estimate
5. Quarterly Vendor Financial Assessment