



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 26, 2015

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 26, 2015, 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 Nevada, member; Ronald D. McCray of Texas, member (by telephone); 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; Tracey A. Ray, Chief Investment Officer; Renée C. Wilder, Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs; Thomas K. Emswiler, Director, Office of Participant Operations and Policy; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; Miriam Settles, Deputy Director, Office of Communications and Education; Scott Cragg, Chief Technology Officer, Office of Technology Services; and Charles Bradshaw, Executive Advisor to the Executive Director.

1. Approval of the minutes of the December 15, 2014 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the December 15, 2014 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 December 15, 2014 be approved.

2. Leadership Development Program.

Mr. Long gave a brief summary of the Leadership Development Program, and acknowledged the program graduates: Alan Ghazi, David Little, Peter Makokha, Julio Merced, Tanner Nohe, Alex Podpaly, Karrenthya Simmons, Matt Taylor, and Lorraine Terry. See "2014 Leadership Development Program" (attached). Chairman Kennedy asked the graduates in attendance to briefly talk about the program and their job at the Agency. Chairman Kennedy inquired whether the next class had been identified. A human resources representative responded that the application process begins in August and the next class starts in fall 2015.

3. Thrift Savings Plan (TSP) activity report by the Executive Director.

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

a. Monthly Participant Activity Report

Mr. Emswiler provided an overview of the Monthly Participant Activity Report. See "Thrift Savings Fund Statistics" (attached). Participation rates dropped to 86.9 percent due to participants hitting the 2014 elective deferral limit. Mr. Emswiler reported that the number of participants now exceeds 4.7 million. Mr. Emswiler concluded by stating that December roll-ins topped 135 million dollars, totaling over a billion dollars for the year, which are both historic highs.

b. Monthly Investment Performance Report

Ms. Ray reviewed the fund performance memorandum, entitled "December 2014 Performance Review – G, F, C, S, I, and L Funds" (attached). Ms. Ray examined the tracking error of the BlackRock-managed funds versus their underlying indices. Ms. Ray noted that the International Fund underperformed by 66 basis points due to a fair value adjustment, and the Fixed Income Fund outperformed by 79 basis points due to securities lending and the pricing service.

In January to date, the F Fund is up 1.5 percent, the C Fund decreased by 0.25 percent, the S Fund decreased by 0.22 percent, and the I Fund increased by 0.93 percent. Ms. Ray's presentation concluded and Chairman Kennedy entertained a motion to reaffirm the investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Investment Fund, and the International Stock Index Investment Fund. The following motion was made, seconded, and adopted without objection:

MOTION: That the investment policies for the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Investment Fund, and the International Stock Index Investment Fund be reaffirmed.

c. Legislative Report

Ms. Weaver updated the Board on changes to the Agency's Oversight Committees in both the House and the Senate. Ms. Weaver reported that the Agency's House Congressional Oversight Subcommittee is now the Subcommittee on Government Operations, chaired by Congressman Mark Meadows. In the Senate, the Agency's Oversight Subcommittee is now the Subcommittee on Regulatory Affairs and Federal Management, chaired by Senator James Lankford. Ms. Weaver noted that Chairman Kennedy and Board Member David Jones have been renominated by the President. Ms. Weaver concluded by informing the Board of at least four bills that, if

passed, would preclude members of Congress from participating in the Federal Employee Retirement System (FERS) defined benefit plan; however, they could continue participating in the TSP.

d. Vendor Financials

Mr. Ahuja reported on the financial health of the critical vendors that provide services to the Agency. See "Quarterly Vendor Financial Assessment" (attached). Mr. Ahuja stated that the Agency remains confident, based on the financial health and level of service, that the vendors will be able to continue to provide the Agency with services. Mr. Ahuja concluded his report by informing the Board that MetLife has challenged its significant financial institution designation issued by the Treasury Department; however, Mr. Ahuja believes this will not impact the annuities issued to participants.

e. Audit Status

Mr. Ahuja reported that there were ninety-nine open audit findings in September 2014, and during the last quarter from October to December, no changes occurred regarding the closure of audit findings due to no audit reports being issued. See "Quarterly Summary of Audit Recommendations" (attached). Mr. Ahuja stated that almost two-thirds of the audit recommendations are considered closed by the Agency, and thirteen audit recommendations closed during the last quarter. Mr. Ahuja concluded his report informing the Board that the Agency remains on track to close its audit findings by the end of 2015.

Chairman Kennedy asked how many audit recommendations would close in the first six months of 2015. Mr. Ahuja responded that about 75 to 80 percent would be closed. Member Jasien and Chairman Kennedy requested that Mr. Long keep the Board informed of the Agency's progress regarding audit discussions with the Department of Labor.

f. Budget Review

Ms. Crowder informed the Board that as of first quarter end, the Agency's budget is aligned with its budget allocation of \$207 million. See "FRTIB FY 2015 Q1 Budget Review" (attached).

4. Annual Expense Ratio Review.

Ms. Crowder informed the Board that the gross and net expense ratios were .0420 and .0285, respectively. See "TSP Annual Review" (attached). The gross expense ratio was offset by forfeitures or loan fees. The net expense ratio resulted in TSP accounts being charged less than .29 cents per one thousand dollars invested. Ms. Crowder reported that calendar year 2014 administrative expenses were \$168.42 million; however, once forfeitures and loan fees were offset, the plan was charged only

\$114 million. Ms. Crowder stated that the plan received \$26.4 billion in contributions, an increase of \$669 million from 2013. She also stated that the plan ended 2014 with \$439.6 billion in assets under management, an increase of \$42.6 billion from 2013. Ms. Crowder concluded by informing the Board that the plan had \$167 million increase in net cash flow from 2013.

5. Project Prioritization Overview.

Ms. Wilder introduced a new report titled the Project Prioritization Report. See "FRTIB Project Prioritization Report" (attached). According to Ms. Wilder, this report is going to be a quarterly snapshot of the projects currently underway at the Agency. Ms. Wilder began by discussing the role of the Project Advisory Committee (PAC) that is responsible for looking at projects, prioritizing them, and making recommendations to the Executive Leadership Council (ELC) regarding them. Ms. Wilder then discussed the Agency's project approval process.

Ms. Wilder reviewed the report explaining that the Agency gives each project a priority score. Ms. Wilder also explained that the report lists all ongoing projects in the Agency, and which offices are involved in the project. Ms. Wilder concluded by informing the Board that this report is designed to give the Board an idea of the level of activity taking place at the Agency and how projects are governed.

Member Jasien asked how this report relates to the budget. Ms. Wilder explained that she works closely with the Chief Financial Officer ensuring that projects and strategic initiatives are included in the budget.

6. Enterprise Risk Assessment.

Mr. Ahuja reported on the results of the Enterprise Risk Assessment. See "Overview: Agency Entity-Wide Risk Assessment" (attached). Mr. Ahuja explained that the risk assessment team is responsible for conducting risk assessment and evaluating the key business processes to identify risks with the intention of implementing corrective actions to close the gaps noted. He also stated that this team is supplemented by an internal controls team and an Anti-Fraud team. Mr. Ahuja described the newly formed internal audit team, headed by Derek Richardson, that is responsible for performing independent audits and reporting directly to the Executive Director and to the Board.

The risk assessment team identified fourteen risks and categorized seven as medium and seven as medium/high. The fourteen risks were mapped against the Agency's goals and mission. Four risks were associated with Goal No. 2: change management, business continuity planning, human capital management, and the Personnel/Physical Security Program. Nine risks were associated with Goal No. 3: information technology security, risk management maturation, system integration, policies and procedures, contractor processes oversight, supply chain vendor health,

procurement, project management, and resource planning. One risk was associated with Goal No. 4: Congressional mandates.

Member Jasien asked if any risks were associated with Goal No. 1 (We help people retire with dignity). Mr. Ahuja stated that although none of the risks that surfaced in this risk assessment appear to be directly associated to Goal 1, these risks do have an indirect co-relationship to Goal 1. He further explained that not mitigating these risks could negatively impact our daily operations which then would ultimately affect our ability to achieve Goal 1.

Mr. Ahuja continued the presentation stating that he hopes to further integrate the risk assessment function with Agency operations so that the Agency could have a more mature process to proactively mitigate risks that aligns with global best practices.

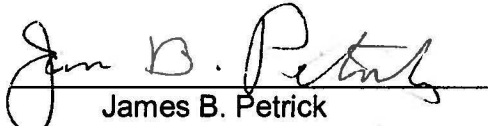
7. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 10:00 a.m. for executive session.

At 11:20 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 11:20 a.m.

MOTION: That this meeting be adjourned.


James B. Petrick
Secretary

Attachments

1. 2014 Leadership Program
2. Thrift Savings Fund Statistics
3. December 2014 Performance Review –G, F, C, S, I, and L Funds
4. Quarterly Vendor Financial Assessment
5. Quarterly Summary of Audit Recommendations
6. FRTIB FY 2015 Q1 Budget Review
7. TSP Annual Review
8. FRTIB Project Prioritization Report
9. Overview: Agency Entity-Wide Risk Assessment