



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 24, 2023

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 24, 2023, at 9:00 a.m., Pacific Daylight Time. The meeting was held at 345 Stockton Street in San Francisco, California, and was open to the public via teleconference. In attendance were Dana K. Bilyeu of Oregon, member; Leona M. Bridges of California, member; Stacie Olivares of California, member (by telephone); Ravindra Deo, Executive Director; Dharmesh Vashee, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director (by telephone); Kimberly A. Weaver, Director, Office of External Affairs (by telephone); Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Participant Experience (by telephone); Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Information Officer; Thomas Brandt, Chief Risk Officer; and Trevor Williams, Chief Financial Officer.

Welcome and Introductions.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 9:07 a.m. and welcomed everyone present to the meeting.

1. Approval of the Minutes of the September 26, 2023, Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the September 26, 2023, Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on September 26, 2023, be approved.

Mr. Deo then gave opening remarks and provided a brief summary of the agenda.

2. Monthly Reports.

a. Participant Report

Mr. Courtney reviewed the monthly Participant Activity Report. See “Thrift Savings Fund Statistics September 2023” (attached). He reported that quarterly statements were issued to all participants inside MyAccount this month. He also reported that in September, the number of Blended Retirement System (BRS) participants surpassed the number of legacy Uniformed Services participants for the first time, and the percentage of BRS participants receiving the full match reached a

new high of nearly 85 percent. Finally, Mr. Courtney reported that, rather than calling the ThriftLine, loan applicants now have the option to check their loan application status within MyAccount, including whether all necessary documents are ready.

In response to a question from Member Bridges, Mr. Courtney explained that, prior to Congress creating the BRS, legacy Uniformed Services participants between 2001 and the end of 2017 who wanted to join the Thrift Savings Plan (TSP) did so voluntarily, and their contributions were not matched. Under the legacy system, most participants were not only potentially leaving the Uniformed Services with a smaller TSP balance but also were not meeting the 20 years of service requirement to qualify for the defined benefit. Under BRS, the defined benefit is reduced by 20 percent for participants who meet the 20 years of service requirement, but in exchange they will have been participating in the TSP with a matching contribution.

In response to another question from Member Bridges, Mr. Courtney explained that currently, the MyAccount tracker only tracks loan status, but the addition of other transactions is planned, as well as automatic text alerts. In response to a comment from Member Bilyeu praising Mr. Courtney's group's work in nearing 90 percent of BRS participants getting the full match, Mr. Courtney noted that defaulting to automatic enrollment has worked.

b. Legislative Report

Ms. Weaver began by reporting that Representative Gabe Vasquez from New Mexico introduced a bill on September 21 that would allow approximately 10,000 employees of tribally controlled schools to receive a pension under the Federal Employees' Retirement System (FERS) and to participate in the TSP. FRTIB has no objection to the bill. The biggest impact would be setting up the data transfers, since the schools are widely dispersed and remote. Ms. Weaver concluded her report by noting that the Federal government faces another potential lapse in appropriations in mid-November, but the FRTIB will be fully functional and ready to serve its participants should that come to pass.

In response to questions from Member Bilyeu, Ms. Weaver explained that there are Federal employees who run schools for the Native American population, and there are other tribally controlled schools that receive Federal money. The bill Representative Vasquez introduced would allow the latter to participate in FERS and the TSP; the former are already receiving these benefits.

3. Quarterly Reports.

a. Investment Review

Mr. McCaffrey presented the quarterly Investment Program Review. See "September 2023 Investment Program Review" (attached). For the month, BlackRock's performance for the F, C, and S Funds was in line with the performance of the Funds' respective indices. Performance for the I Fund fell behind the International Index by 12

basis points, primarily due to fair value pricing. State Street's September performance for the F Fund lagged the Fixed Income Index return by four basis points, primarily due to securities sampling. Performance for the C and S Funds matched the indices. I Fund performance exceeded the International Index by three basis points, primarily due to tax advantage.

Mr. McCaffrey further reported that markets were unfavorable to investors during September. Noting continued economic growth and elevated inflation, the Federal Reserve reiterated its commitment to restoring price stability but elected not to change its target for short-term interest rates. Longer-term interest rates rose notably, which proved to be a headwind for stocks. The C and S Funds posted meaningful losses; the I Fund, hampered in part by a stronger U.S. dollar, finished lower; the increase in interest rates contributed to the F Fund's loss; and all L Funds finished lower.

Mr. McCaffrey discussed that, for the year-to-date, BlackRock's performance for the F Fund was ahead of the Fixed Income Index return by 21 basis points, primarily due to a difference in the timing of year-end pricing for the index versus the manager's pricing. Performance for the C Fund matched the Large Cap Index. The S Fund outperformed the Small Mid Cap Index by 12 basis points, primarily due to securities lending. I Fund performance was behind the International Index by 23 basis points, primarily due to fair value pricing. State Street's year-to-date performance for the F Fund was ahead of the Fixed Income Index by 16 basis points, primarily due to the year-end pricing difference. Performance for the C Fund was in line with the Large Cap Index. The S Fund's performance exceeded the Small Mid Cap Index return by eight basis points, primarily due to securities lending. Performance for the I Fund was ahead of the International Index by 37 basis points, primarily due to tax advantage.

Mr. McCaffrey provided that both stock and fixed income markets are volatile again in October. Through close on Monday, October 23, the C Fund had a loss of 1.58 percent, the S Fund is down 5.73 percent, and the I Fund had lost 3.23 percent. In fixed income, the F Fund had fallen 1.55 percent, and the G Fund had earned a positive 0.30 percent.

Mr. McCaffrey noted that about 53 percent of accounts hold at least one L Fund. For the month of September, participation in the L Funds increased within the expected range, driven primarily by the automatic enrollment of new participants. There were no concerns raised with respect to interfund transfers (IFTs) during the month. There was a net 2 billion dollars of IFTs into the G Fund, a relatively small amount given the size of the Plan. On a percentage basis, only about 1.7 percent of participants moved assets between funds in September. The level of activity in September was below the long-run median of 2 percent. For 2023 year-to-date through September 30, 10.4 percent of participants have moved assets between funds.

Mr. McCaffrey shared that audits of BlackRock's and State Street's proxy voting by Institutional Shareholder Services (ISS) found no exceptions to the respective managers' established guidelines during the second quarter of 2023.

Mr. McCaffrey concluded by discussing class action settlements. BlackRock began the second quarter with 101 open claims. During the quarter, nine new claims were opened, six claims were closed due to administrator action, four claims in the C Fund were settled for a total of about 84,000 dollars, and 13 claims were settled in the S Fund for over 1.2 million dollars. Additionally, there was a very small dollar amount of residual payments amounting to about 840,000 dollars from 13 previously closed claims across the C, S and I Funds. Total proceeds from settlements reached over 2.1 million dollars and 87 claims remained open at the end of the quarter. State Street began the quarter with ten open claims. In the S Fund, two new claims were opened and two other claims were closed, including one settled claim for about 4,000 dollars. Ten claims remained open at the end of the quarter.

b. Audit Status

Mr. Williams reviewed the quarterly External Audit and Remediation Status report. See "Quarterly External Audit and Remediation Status October 2023" (attached). He reported that for fiscal year (FY) 2023, 11 audits were completed with two still in progress. The Employee Benefits Security Administration (EBSA) conducted the bulk of the audits, with CliftonLarsonAllen (CLA) conducting two and the Government Accountability Office (GAO) conducting one. CLA expects to complete its open audit by the end of October.

Mr. Williams further reported that ten recommendations were closed this quarter. Overall, for FY23, the goal was 29 closed recommendations; 64 were actually closed. There was a 50 percent decrease in open recommendations from external auditors in FY23, with many of the reductions coming from implementing the new recordkeeping system.

Mr. Williams concluded by reporting that the audit entrance conference for EBSA's FY24 audit plan was held on October 19th, with six audits currently planned for FY24.

c. Budget Review

Mr. Williams provided the quarterly budget update. See "FY2023 4th Quarter Budget Review" (attached). He reported that the Board-approved budget for FY23 was 481 million dollars. Currently, the committed budget is 427.8 million dollars, or 89 percent. The bulk of the committed budget is for the recordkeeping system. Over the last five years, the Agency's budget peaked in FY21 with the implementation of the new recordkeeping system and maintenance of the legacy system, but the Agency projects future budgets to be more stable.

Mr. Williams concluded by reminding the Board that expense ratios are based on a calendar rather than fiscal year, and that expense ratio data for the year would be presented in January. Mr. Williams also reminded the Board that for FY22 the Agency's expense ratio increased, because the asset base went down with the market.

4. Adjourn.

On a vote taken by the Chair, the members closed the meeting at 9:33 a.m. to enter into executive session.

At 10:16 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 Chair Gerber adjourned the meeting at 10:16 a.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics September 2023
2. September 2023 Investment Program Review
3. Quarterly External Audit and Remediation Status October 2023
4. FY2023 4th Quarter Budget Review