



MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 27, 2021

David A. Jones, Acting Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 27, 2021, at 10:00 a.m., Eastern Time. The meeting was held telephonically and open to the public. In attendance were Dana K. Bilyeu of Oregon, member; William S. Jasien of South Carolina, member; Ravindra Deo, Executive Director; Dharmesh Vashee, Acting General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer; Renée C. Wilder Guerin, Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs; Susan Crowder, Chief Financial Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Tee Ramos, Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Technology Officer; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the March 23, 2021 Board Member Meeting.

Acting Chairman Jones entertained a motion for approval of the minutes of the March 23, 2021 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 March 23, 2021 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). He noted that more than 1.8 million participants have a Roth balance in the Plan, with amounts totaling over 28 billion dollars. This represents a 41 percent increase in the number of Roth account balances, and a 64 percent increase in total Roth assets since the implementation of the Blended Retirement System (BRS) in January 2018.

Mr. Ramos highlighted that FERS and active duty uniformed services participation rates increased to 94.4 percent and 77.2 percent, respectively. In addition, the number of participants receiving the full match of five percent continues to rise. He

concluded by noting that BRS participants are seeing the largest increase with respect to participants receiving the full match, up nearly three percent to 69.8 percent since the implementation of automatic enrollment at five percent in October 2020.

b. Legislative Report

Ms. Weaver reported that there are no bills of note for the Board. She indicated that the House of Representatives is out of session this week and next, although committee meetings and mark-ups are continuing. Negotiations on the larger infrastructure bill are ongoing and the Senate is working on a water infrastructure bill this week. The Senate is out of session next week. Ms. Weaver concluded by noting that the President gives his State of the Union address tomorrow.

3. Quarterly Reports.

a. Investment Performance

Mr. McCaffrey reviewed the monthly Investment Performance Report. See "March 2021 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey reported that for the month of March, BlackRock's performance for the F Fund exceeded the performance of the Fixed Income Index by three basis points, primarily due to securities lending. Its performance for the C Fund was in line with the Large Cap Index and its performance for the S Fund was in line with the Small Mid Cap Index. BlackRock's performance for the I Fund was ahead of the International Index by five basis points, primarily due to tax advantage.

Mr. McCaffrey noted that the continued rollout of vaccines and the passage of a stimulus package raised hopes for strong economic growth, an outlook that some observers associated with higher inflation expectations. Nevertheless, the Federal Reserve did not change its target short-term interest rate, citing the ongoing public health crisis. In March, the C Fund rose while the S Fund fell just slightly. The I Fund also gained, although its positive performance was dampened by a stronger U.S. dollar. Higher interest rates led to a loss for the F Fund. All the L Funds finished higher.

Mr. McCaffrey reported that for the year to date, BlackRock's performance for the F Fund exceeded the benchmark by three basis points, primarily due to securities lending. Its performance for the C Fund was in line with its benchmark. For the S Fund, BlackRock outperformed by five basis points, primarily attributable to securities lending. Its performance for the I Fund was ahead of the benchmark by six basis points, primarily due to tax advantage.

For the current month through Monday, April 26, stocks are holding gains. The C Fund is up 5.48 percent. The S Fund is up 6.00 percent and the I Fund has gained 4.33 percent. The F Fund also has a gain of 0.96 percent. The G Fund is ahead by 11 basis points or 0.11 percent.

Mr. McCaffrey indicated that, during March, participation in the L Funds continued to increase, driven largely by automatic enrollment of new participants. He highlighted the net monthly interfund transfer (IFT) chart, stating that it is reasonable to conclude that the rising equity markets attracted attention from participants, some of whom transferred from the G and F Funds primarily into the C and S Funds. Mr. McCaffrey noted that, for most participants, IFTs remain the exception, not the norm. The vast majority of participants do not execute an IFT in a given month. March was no exception, as only one percent of participants moved assets between funds.

Mr. McCaffrey continued with a report on proxy voting audits and class actions. An audit of BlackRock's proxy voting conducted by Institutional Shareholder Services found no exceptions to BlackRock's established guidelines during the fourth quarter of 2020. With respect to class actions, the fourth quarter began with 69 open claims. Fourteen claims were opened during the quarter. There were 15 claims closed. Of those that were closed, one was closed in the F Fund due to administrator action, one was settled in the C Fund for a little over 1.3 million dollars, and for the S Fund, six were closed as a result of administrator action and seven claims were settled for 382,239 dollars. At the end of the quarter, 68 claims remained open across the four funds. For the entire calendar year, settled claims came in at a total of 2,550,841 dollars.

Acting Chairman Jones entertained a motion to continue the current policies for the G, F, C, S, and I Funds. The following motion was made, seconded, and adopted without objection:

MOTION: That the current policies for the G, F, C, S, and I Funds are affirmed without change.

b. Budget Review

Ms. Crowder presented an overview of the Fiscal Year (FY) 2021 2nd Quarter Budget Review. See "FRTIB FY 2021 2nd Quarter Budget Review" (attached). Ms. Crowder noted that the budget was in alignment with the projected spend plan, at 91 percent of the current target. The actual execution rate was 69 percent or 343.1 million dollars for the 2nd quarter. The vast majority (82 percent) of the executed budget was in support of recordkeeping operations, maintenance, and transition to Converge.

Ms. Crowder stated that average net assets under management have been projected to grow to roughly 720 billion dollars for FY 2021 and the approved budget is 498.4 million dollars. She noted that if spending and asset growth are aligned with these estimates, the expense ratio over this period would be approximately 6.8 basis points. She caveated this by noting that the first quarter of calendar year 2021 just ended and expense ratios are calculated on a calendar year basis. In response to a

question from Member Jasien, Ms. Crowder indicated that the expense ratio should normalize back to the five-basis point range in 2023 or 2024.

c. Audit Status

Mr. Brack Boone of the Office of Enterprise Risk Management (OERM) provided an overview of the Audit Status/Security and Remediation Status. See “Audit Status/Security and Remediation Status” (attached). He reported that there are 17 audits planned for the year, five of which have been completed as of March 31 and the remaining 12 of which are progressing well.

Mr. Deo provided an update on audit remediation status, reporting that the Agency closed 20 audits this quarter, up from the projected 12 audit closures. He noted that, instead of the 49 audit closures projected for all of FY 2021, the Agency has actually closed 60. The Agency will continue to remediate audits based on risk.

4. Annual Financial Audit.

Mr. Thomas Rey of Clifton Larson Allen (CLA) presented an overview of the 2020 financial statement audit. See “Federal Retirement Thrift Investment Board – Thrift Savings Fund” (attached). Mr. Rey stated that CLA’s independent auditor’s report resulted in an unmodified “clean” opinion that the Agency’s financial statements are presented fairly, and in all material respects, in conformity with the U.S. Generally Accepted Accounting Principles. CLA issued a Letter on Internal Control Over Financial Reporting. No material weaknesses were identified; one significant deficiency was identified (down from three last year); and five other control related matters were identified. Mr. Rey noted that the one significant deficiency was Plans of Action and Milestones Remediation.

5. Department of Labor Presentation.

Mr. Michael Auerbach of the Department of Labor Employee Benefits Security Administration (EBSA) presented an overview of the fiscal year 2021 fiduciary oversight program. Mr. Derek Thomas of KPMG LLP presented highlights of the overall audit assessment from May 2020 to April 2021 and an overview of the new fundamental control recommendations. See “U.S. Department of Labor Employee Benefits Security Administration Fiscal Year (FY) 2021 Thrift Savings Plan Fiduciary Oversight Program” (attached). Eight audits were finalized. No material instances of non-compliance were reported. Twenty-eight agency recommendations were closed, and 14 new agency recommendations were issued, 11 of which are related to fundamental controls. Mr. Thomas noted that, based on the current plan, nine audits, balanced between IT-related audits and process audits, will be completed in FY 2021.

Mr. Thomas indicated that 77 percent of the prior recommendations reviewed during the IT audits remained open and, of the 41 open IT recommendations, 36 are five years or older. He recognized that the Agency is moving to a new record

keeping system in the next year but nevertheless encouraged a continued focus on trying to resolve some of the open fundamental recommendations as soon as possible to ensure the new system is protected as best as it can be.

Mr. Thomas reviewed the trend of closed and new recommendations over the past five years, noting that the number of new recommendations has fallen below the number of closed recommendations in the last year. Mr. Thomas encouraged a continued focus on IT-related recommendations as 70 percent of the new recommendations are IT-related.

Finally, Mr. Thomas highlighted the importance of early and frequent communications regarding the shift to the new record keeping system. He said that it is critical for KPMG to understand the new processes, policies, and procedures in order to determine the impact the transition will have on the audits.

6. Multi-Asset Manager Update.

Mr. McCaffrey provided an update on the multi-asset manager project. See “Update on Multi-Asset Manager” (attached). He reported that the transfer of approximately 10 percent of the C Fund’s assets – consisting of roughly 27.9 billion dollars in securities and about 131 million dollars in cash – from BlackRock to State Street was successfully executed after the market close on Friday, April 16. Every day, the net flows into or out of the C Fund are now split in a ratio of 90:10 between BlackRock and State Street to maintain the desired allocation between each manager. Mr. McCaffrey noted that participants who invest in the C Fund, either directly or by way of the Lifecycle Funds, will not see any distinction between the assets managed by BlackRock and those managed by State Street. The C Fund will continue to have one share price and one set of returns.

Although the C Fund transfer was very successful, Mr. McCaffrey indicated that significant work still lies ahead. He noted that the team chose to begin with the C Fund because its asset transfer would be the most straightforward. The small- and mid-cap holdings of the S Fund and the generally more complex fixed income holdings of the F Fund could make the transfers for those Funds in May and June more challenging, even if only because it involves moving from working with hundreds of securities to working with thousands of securities. However, Mr. McCaffrey is very confident that the teams and our vendors will use the lessons learned from their success with the C Fund to ensure that the S and F Fund transfers are executed just as smoothly.

7. Converge Update.

Mr. Ramos provided an update on the Converge project. See “Converge Update” (attached). He reported that the planning phase of the project has been closed out and is now focused on the development of operational rules. As part of the transition from the acquisition phase to implementation, Mr. Ramos noted that the

project name (formerly RKSA, now Converge) has been refreshed to reflect the current efforts and scope of the program. He indicated that the project is on track to meet all future milestones.

8. Adjourn.

On a vote taken by the Acting Chairman, the members closed the meeting at 11:19 a.m. for executive session.

At 12:14 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 Acting Chairman Jones adjourned the meeting at 12:14 p.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. March 2021 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB FY 2021 2nd Quarter Budget Review
4. Audit Status/Security and Remediation Status
5. Federal Retirement Thrift Investment Board – Thrift Savings Fund
6. U.S. Department of Labor Employee Benefits Security Administration Fiscal Year (FY) 2021 Thrift Savings Plan Fiduciary Oversight Program
7. Update on Multi-Asset Manager
8. Converge Update