



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 27, 2021

David A. Jones, Acting Chairperson of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 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, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer, Deputy Executive Director, and Acting Chief Risk Officer; Kimberly A. Weaver, Director, Office of External Affairs, and Acting Director, Office of Enterprise Planning; 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.

Welcome and Introductions.

Acting Chairperson Jones called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:00 a.m. and welcomed everyone present to the meeting.

1. Approval of the Minutes of the June 29, 2021 Board Meeting.

Acting Chairperson Jones entertained a motion for approval of the minutes of the June 29, 2021 Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on June 29, 2021 be approved.

2. Monthly Reports.

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

a. Participant Activity Report

Mr. Ramos reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics June 2021" (attached). Mr. Ramos reminded the Board that in late 2020, new participants were automatically enrolled at five percent instead of three percent. As a result, the number of participants receiving the full matching rate

continued to climb in 2021 with FERS participants up more than two percent and BRS active-duty participants up seven percent for the year.

Hardship withdrawals have increased nine percent for 2021, which is back in line with the historical normal levels. In 2020, hardship withdrawals had decreased to their lowest levels since 2007, driven by the CARES Act loans and withdrawal options that Congress made available due to the pandemic.

b. Legislative Report

Ms. Weaver reported that currently there is no new legislation that affects the TSP this month. The Senate is working on infrastructure issues and the House is working through the various appropriations bills. The Senate Armed Services Committee marked up its FY22 National Defense Authorization Bill, and as of now, there is nothing in the bill that affects the TSP.

The Senate is scheduled to start their August recess on August 9th, but there are indications they may work past that date. The recess would continue through Labor Day weekend and come back into session September 13th.

3. Quarterly Reports

a. Investment Performance

Mr. McCaffrey reviewed the monthly investment performance report. See “June 2021 Performance Review – G, F, C, S, I, and L Funds” (attached). Mr. McCaffrey noted that for June, BlackRock’s performance for the C and S Funds was in line with returns of the Large Cap Index and the Small Mid Cap Index, respectively. BlackRock’s performance for the F Fund exceeded the Fixed Income Index returns by five basis points, primarily due to securities lending, and its performance for the I Fund lagged the International Index returns by 31 basis points, primarily due to a market holiday in the U.S. on the last trading day of May.

State Street’s performance for the C and S Funds was in line with the Large Cap and Small Mid Cap indices respectively as well.

After market close on Friday, June 18, approximately 20 percent of the F Fund’s assets were transferred from BlackRock to State Street. Following the transfer of assets, from market close on June 18th to market close on June 30th, the Fixed Income Index fell 0.01 percent. Returns for the F Fund assets managed by BlackRock were equal to the index returns during that period while the returns of the F Fund assets managed by State Street fell 0.02 percent.

Mr. McCaffrey provided an overview of the U.S. equity markets in June, highlighting that overall, the markets remained positive, with investors possibly accepting recent high inflation data as “transitory” while keeping their focus on the continued opening of economies and accommodative near-term monetary policy. Both the C Fund and the S Fund rose. The I Fund had a loss as a stronger U.S. dollar offset

positive returns in non-U.S. markets. A decrease in longer-term interest rates contributed to a gain for the F Fund. All L Funds finished higher.

BlackRock's year-to-date performance for the F Fund was ahead of the Fixed Income Index by fourteen basis points, primarily due to securities lending. Its performance for the C Fund was in line with the Large Cap Index. For the S Fund, BlackRock outperformed the Small Mid Cap Index by eight basis points, primarily resulting from securities lending. Its performance for the I Fund was ahead of the International Index by 18 basis points, primarily due to tax advantage.

For the current month through Monday, July 26, returns are mixed. The C Fund is up 2.98 percent. The S Fund is down 1.22 percent and the I Fund has gained 0.57 percent. The F Fund also has a gain of 0.84 percent. The G Fund is ahead by 0.11 percent.

Participation in the L Funds continued to increase, driven largely by automatic enrollment of new participants. The number of participants invested in the L Funds crossed three million for the first time in June. Over 500,000 of those participants are invested in the six new L Funds that launched July 1, 2020.

An audit of BlackRock's proxy voting found no exceptions to BlackRock's established guidelines during the first quarter of 2021.

Mr. McCaffrey concluded by reporting on class action settlements; the first quarter began with 69 open claims. Thirteen claims were opened during the quarter. There were 11 claims closed. Of those that were closed, one was settled in the C Fund for just under 100,000 dollars. For the S Fund, six were closed because of administrator action and four claims were settled for about 244,000 dollars. At the end of the quarter, 71 claims remained open across the four funds.

Acting Chairperson Jones entertained a motion for approval of the investment policy of the G, C, S, F, and I Funds. The following motion was made, seconded, and adopted without objection:

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

b. Budget Review

Ms. Crowder provided the 3rd Quarter Budget Review. See "FY21 3rd Quarter Budget Review" (attached). Budget execution of 417.7 million dollars was in alignment with the Agency's spend plan projections. Analyses of the third-quarter budget show that the Agency is executing at 99 percent against the Agency's spend plan and 84 percent of the Agency's 498.4 million dollar overall FY 2021 budget. Ms. Crowder noted that 77 percent (or 323.2 million dollars) executed thus far has been in support of the current recordkeeping operations and maintenance as well as the transition to the new recordkeeper.

Ms. Crowder transitioned to providing a five-year look at the Agency's budget versus average assets. The average net assets under management are projected to be roughly 736 billion dollars. If spending and asset growth meet the Agency's projections, the expense ratio for calendar year 2021 is expected to be approximately 6.8 gross basis points. Ms. Crowder showed projected average assets, participant counts and expenses over the next several years. After the Plan Operations Modernization Portfolio (POMP) project is complete, expense ratios are expected to normalize back to within the Board's goal of five basis points sometime around 2024.

Member Jasien commented that he was very pleased to see that expenses are on track with previous years' forecasts.

c. Audit Status

Mr. Brack Boone, Senior Auditor, provided an audit status update. See "Audit Status/Security and Remediation Status Update" (attached). FRTIB has 17 audits scheduled for this year, with eight complete, eight in progress, and one planned. On the audits completed, IT Operations and System Enhancement were completed since the last audit presentation. For the audits in progress, all are in the reporting phase and all reports should be issued by September 30th. The last planned audit should be started by early August.

The System Enhancement and Software Change Control audit consisted of 3 objectives: 1) whether the Agency implemented procedures to control the development, alteration, and configuration of TSP software applications, and whether the Agency controlled the process for creating, storing, and accessing production data used to test applications; 2) the Agency's response to the COVID pandemic; and 3) the status of prior year recommendations. KPMG determined the Agency met the first two objectives. KPMG closed 18 prior year recommendations, issued two new recommendations, and kept eight prior year recommendations open.

The IT Operations audit consisted of 3 objectives: 1) whether the Agency implemented procedures to support and maintain the overall IT operating environment and monitored external threats to the participant and other sensitive agency data; 2) the Agency's response to the COVID pandemic; and 3) the status of prior year recommendations. KPMG determined the Agency met the first two objectives. KPMG closed 20 prior year recommendations, did not issue any new recommendations, and kept nine prior year recommendations open.

Mr. Deo then presented on audit finding closures. The Agency exceeded its closure goal for the quarter, closing 26 audit findings versus its target of 16 audit findings. Similarly, the Agency's goal was to close 49 findings for the fiscal year and so far, it has closed 86. Mr. Deo also highlighted that the number of open audit findings fell by 41 in the recent quarter.

The audit findings that were rated high have decreased by four and those rated as moderate have decreased by nine. Those rated low have decreased by three and those rated as planning have decreased by two, primarily because the Agency's focus has been on resolving the high and moderate-rated findings.

Mr. Deo then presented cyber vulnerabilities identified via the DHS' NCATS program, noting that the Agency has never had a critical or high vulnerability. NCATS occasionally finds a medium vulnerability. When such a vulnerability is discovered, the Agency works diligently to lower it as soon as possible.

Member Jasien and Acting Chairperson Jones congratulated the Agency on exceeding its targeted goals and making progress on its audit findings.

4. Internal Audit Update

Barbara Holmes, Chief Audit Executive, provided an updated on internal audits, Independent Verification and Validation (IV&V), and other internal audit activities. See "Internal Audit Update" (attached). Ms. Holmes began by summarizing the calendar year 2021 internal audit plan and the current stage of each audit. Ms. Holmes stated that the Agency had completed the Capital Asset audit, which was a follow up to the 2019 Fixed Asset audit. The audit had three Notices of Finding and Recommendation (NFRs) that were risk rated medium and one NFR risk rated low.

All the findings in IV&V 4 have been closed. Over the period of two years, 58 closure packages were reviewed through four tranches of IV&V. One finding was rescinded, and one remained open. The 56 audit findings that were reviewed and closed by the IV&V process were compared with the findings KPMG reviewed during their audit procedures and so far, KPMG has reviewed 21 IV&V findings, just over a third of the findings, and has not yet reviewed the other two-thirds. Due to the program offices establishing a disciplined and well-defined process for closing open audit findings, the IV&V process will be suspended.

Ms. Holmes reviewed the status of internal audit findings. The three open audit findings from 2018 will be addressed in the 2022 audit cycle. The four open audit findings from 2019 that were closed related to the fixed asset audit and two of those were partially reissued in 2021. Finally, the two findings related to the government purchase card from 2020 are now closed.

Ms. Holmes closed her presentation by stating the draft audit plan for 2022 is currently being reviewed by senior management and that planning for the remainder of the 2021 audits is ongoing, with a procurement for internal audit services occurring later this fall.

5. Converge Update

Mr. Ramos reported that significant progress has been made on the Converge program since the last briefing in April. The first round of data conversion was formally closed on June 30th and overall, the Converge program remains on track. A 13th key milestone was added to include a fourth round of data conversion testing between December 2021 and February 2022.

Mr. Tanner Nohe, Converge Program Manager, continued the presentation and provided additional details about the data conversion efforts. In late April 2021, the Agency sent a large set of anonymized data to Accenture, who then spent about two months adjusting and analyzing the data on their new platform. As a result, Accenture returned around 40 different reports covering all aspects of the data conversion process and outcomes. The Agency is currently reviewing those reports and incorporating the findings in future tests.

The second round of data testing is currently in progress. Accenture will perform the same testing and analysis on their platform as they did with the first test, now with a larger set of data. Results are expected by September 30th.

Mr. Nohe noted that while a fourth round of data conversion testing was added, it will not affect the original go-live date. The fourth round will further reduce the overall risk as the Agency heads to go-live in the middle of next year. During the next program brief, the Agency will be able to provide more information on the new conversion benefits that will be brought to the TSP.

Acting Chairperson Jones noted that he has great confidence in the status of the project with Mr. Nohe at the helm given his experience in prior projects.

6. Adjourn.

On a vote taken by the Acting Chairperson, the members closed the meeting at 10:29 a.m. for executive session.

At 10:53 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 Acting Chairperson Jones adjourned the meeting at 10:53 a.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics June 2021
2. June 2021 Performance Review – G, C, F, S, I, and L Funds
3. FY21 3rd Quarter Budget Review
4.
 - a. Audit Status/Security and Remediation Status Update
 - b. Summary of KPMG Performance Audit of the Thrift Savings Plan Systems Enhancement and Software Change Controls Report dated April 26, 2021
 - c. Summary of KPMG Performance Audit of the Thrift Savings Plan IT Operations Management Report dated May 17, 2021
5. Internal Audit Update
6. Converge Status Update