



MINUTES OF THE MEETING OF THE BOARD MEMBERS

May 13, 2020

Michael D. Kennedy (by telephone), Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 13, 2020, at 10:00 a.m., Eastern Time. The meeting was held telephonically and was open to the public. In attendance were Dana K. Bilyeu of Oregon, member; Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director; Megan G. Grumbine, Board Secretary and General Counsel; Kimberly A. Weaver, Director, External Affairs; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Sophie Dmuchowski, Deputy Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer, Susan C. Crowder, Chief Financial Officer; Vijay Desai, Chief Technology Officer; Gisile Goethe, Director, Office of Resource Management; Renée Wilder Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

Chairman Kennedy welcomed participants, members of the press, and the public to the FRTIB Board meeting and explained that the purpose of the meeting was to discuss the implementation of the I Fund benchmark.

Chairman Kennedy acknowledged that the COVID pandemic was ongoing and expressed his well wishes for everyone's safety and health. He then thanked the FRTIB staff for running the TSP efficiently and noted that the Agency was working on providing COVID loan and withdrawal flexibility.

1. Recognition of the Nomination of New Board Members

Chairman Kennedy discussed the recent White House nomination of three individuals, Mr. John Barger, Mr. Christopher Burnham, and Mr. Frank Dunlevy to replace FRTIB Member McCray, Member Jones, and Chairman Kennedy respectively. Chairman Kennedy noted that he had spoken to several of the incoming nominees and looked forward to facilitating a transition between Boards.

2. I Fund Benchmark Discussion

a) Chairman Kennedy's Remarks

Chairman Kennedy commented that a reason he decided to hold this particular meeting was because of the timing of the implementation of the I Fund benchmark change. Chairman Kennedy noted that the Agency was set to

commence the I Fund transition on June 1 and that the total time to complete that process was approximately 90 days. Chairman Kennedy stated that, in light of a new Board coming onboard, his belief is that the Board should pause on implementation. Chairman Kennedy commented that he did not want to bring in a new Board in the middle of a transition.

Chairman Kennedy noted that there is a retirement crisis and that many studies have shown that people are not saving enough. The FRTIB Board has been focused on ensuring that Federal employees are ready for retirement and that they have the appropriate funds in their accounts so that they can retire with dignity. The International Fund is a component of that retirement strategy.

Chairman Kennedy commented that the FRTIB Board started looking to make a shift toward emerging markets in the I Fund in 2015, and then made the decision to proceed in 2017. In November 2019, after receiving letters from Senators Rubio and Sheehan, the Board revisited the issue and decided to move forward with the Board's decision to move to the emerging market I fund benchmark. In November, Member Jasien did not support moving forward with the new benchmark and instead moved to continue with the I Fund's current benchmark while exploring ways for participants to gain emerging market exposure in other ways.

Chairman Kennedy stated that now the FRTIB is being asked to consider the I Fund benchmark decision based on other challenges – political challenges, national security, financial risk, etc. Chairman Kennedy acknowledged that the FRTIB Board Members are professionals with backgrounds in investments, finance, capital markets, and pensions. The Board is a bipartisan group – Democrats and Republicans, but the Board operates in a non-partisan manner.

Chairman Kennedy noted that when the TSP was founded in 1986, Congress intentionally established guardrails to keep politics out of the FRTIB Board's decision-making process. Therefore, the FRTIB Board has always operated in a non-partisan manner.

Chairman Kennedy acknowledged that the FRTIB had received a letter from Secretary of Labor Eugene Scalia along with letters from Larry Kudlow, the Chairman of the National Economic Council, and Robert O'Brien, National Security Advisor. Chairman Kennedy noted that these letters were the only instances in which the Administration reached out to Chairman Kennedy on the I Fund benchmark issue. Chairman Kennedy noted that he found Mr. Kudlow and Mr. O'Brien's letters thoughtful and in line with Member Jasien's perspectives and further noted that he wished the Board had received this communication earlier as the Board Members are not experts in national security issues.

Chairman Kennedy then noted that a pause in the I Fund benchmark transition made sense because of the impact of coronavirus on the global markets. He noted that the pandemic has created uncertainty and could impact a transition to

emerging markets which will be challenging. Such a pause would also allow a new Board to come in and study the issue and make their own determination. With that, Chairman Kennedy called on the other FRTIB Board Members for their perspectives.

b) Member Jones' Remarks

Member Jones noted that he has had the privilege of serving on the FRTIB Board for over two terms which have spanned the past 8 and half years. Throughout those years, the FRTIB Board has managed the Thrift Savings Plan according to its legal mandate which was established in 1986. The FRTIB Board's mission has always been to serve the TSP's participants and their beneficiaries with the utmost care and with regard to fulfilling the Board's fiduciary responsibilities. Whether the focus was operational or investment oriented, Member Jones noted that he believes that the Board has consistently fulfilled its obligations.

Member Jones noted that, in his opinion, the Board's decision in 2017 to change the index for the I Fund and its subsequent review and reaffirmation of that original decision in November 2019 were correct, given all of the facts and studies available at those times.

Member Jones then commented that each Board Member has served beyond his or her term. He noted that he hopes that the incoming Board Members will take the time to study the I Fund issues, and every other issue they will face, within the context of the Agency's independence and mandate to operate in the best interest of the participants and beneficiaries.

Out of professional courtesy and to provide each of the new Board Members the opportunity to become acquainted with the complexities of guiding the TSP, Member Jones noted that he supports deferring the implementation of the I fund benchmark change at this time.

Finally, Member Jones noted that he hopes the new Board Members will work closely with the capable Executive Director, Mr. Ravi Deo, and the leadership team, and he also hoped that, as requested by the FRTIB Board, the Office of Foreign Assets Control (OFAC) at the Department of Treasury would contribute to the conversation as well. Member Jones ended his comments by thanking Chairman Kennedy for his leadership and his fellow Board Members for their service as well.

c) Member McCray's Remarks

Member McCray commenced his remarks by thanking Chairman Kennedy for his leadership and his fellow Board Members for this support throughout the years.

Member McCray noted that the Board Members served in a holdover status not because they had nothing else to do but because of the commitment the Board Members made to serve and because the Board Members' successors were not named. Member McCray wishes the incoming Members well. As the FRTIB Board

consistently has since it was established in 1986, he hopes that they continue to exercise independence, courage, and confidence, honor the rule of law, and ignore political, geopolitical, and national security pressure.

Member McCray noted that his background is as an investor, not a politician or policymaker. Member McCray noted that there are reasons to be concerned about China and that changes to the TSP I Fund should not be in the top 20 issues.

Member McCray noted that he believes the statutory authority, case law, fiduciary duty, and best practices compel a decision to make the I Fund benchmark change that the Board approved in 2017. Such a change is in the best interests of participants and beneficiaries. Member McCray noted that he continues to believe that political considerations have no place in FRTIB Board decisions.

Member McCray closed his comments by noting he supports extending the professional courtesy to the next Board to evaluate the investment options and to make the decision that they deem appropriate regarding the I Fund.

d) Member Bilyeu's Remarks

Member Bilyeu noted that she and Chairman Kennedy have served on the Board the longest, and she thanked Chairman Kennedy for his leadership and service. Member Bilyeu noted that she is proud of the work the Board and Agency have accomplished on behalf of the participants and beneficiaries over the last decade. She noted that those making their way to the Board will also take on the fiduciary role in the same fashion as the outgoing Board.

Member Bilyeu noted that sound fiduciary decisions require thorough process and that the Board had relied on a very long and thorough process in making its decision relating to the I Fund benchmark. The Board relied on the input of investment professionals and experts to ensure that the federal workforce has the same opportunities that all Americans have to invest their retirement dollars in a way that will maximize their potential security in retirement.

Member Bilyeu noted that the transition to the new, broader index is not an outlier and that reports from experts note that the same broader index is used by virtually all of the large private sector 401(k)'s and public sector equivalents. She also noted that the TSP's I Fund current benchmark only represents 58 percent of investable international markets.

So that the incoming Board Members can conduct their own due diligence and make a decision based upon the best interest of the participants and beneficiaries of this fund, Member Bilyeu noted that she too supports extending the courtesy to those new Board members.

Member Bilyeu noted that she would like to highlight that the Office of Foreign Assets Control at the Department of Treasury is the office that makes decisions

regarding what is an investable security for all United States' citizens. Member Bilyeu hopes they will weigh in on the I fund benchmark issue because she believes all U.S. citizens should be treated equally relative to foreign policy and national security concerns. Member Bilyeu ended her comments by acknowledging that it has been a pleasure working with the Board and the staff at the FRTIB.

e) Member Jasien's Remarks

Member Jasien thanked Chairman Kennedy for his courageous leadership, energy, and commitment to the mission and purpose of the FRTIB. Member Jasien also thanked his fellow Board Members for their honest deliberations and spirited debates. Member Jasien noted that the Board debates are non-partisan and that the entire Board has been focused on doing the right thing for the participants and beneficiaries. Member Jasien acknowledged the many achievements of the Board and thanked the FRTIB staff for their integrity and commitment.

Member Jasien also congratulated the incoming Board Members and noted his support in making the Board transition as seamless as possible. Member Jasien noted that the TSP is the greatest retirement plan in the world, and that he is sure these new Board Members will ensure that continues.

Member Jasien commented that he stood against the benchmark change in November 2019 for many reasons. On a personal level, Member Jasien noted that he has three sons that serve in the Uniformed Services, and he wants all members of the military and Federal workforce to have the ability to invest internationally without exposure to China and/or any other adversaries.

Member Jasien noted that today, he stands even stronger in opposition to the I Fund benchmark change and that it is his privilege to introduce a motion, based on the comments of the Board, he believes will pass.

Member Jasien then made the following motion which was seconded and adopted without objection:

MOTION: The FRTIB last reviewed the decision relating to the I Fund benchmark in November 2019 and since that time has been pursuing the finalization of the changes as originally voted on by the Board in November 22, 2017. Due to the meaningful different economic environment related in large part to the impact of the global COVID-19 pandemic, as well as the nomination of 3 new FRTIB Board members. Pending further study, I move that the FRTIB Board delay the implementation of the I Fund benchmark change to the MSCI ACWI ex US Investable Market Index from the MSCI EAFE Index.

Chairman Kennedy then concluded the meeting by noting that serving as Chairman has been an honor and thanked Congress, the Administration, his fellow Board Members, and the staff of the FRTIB for their assistance.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 10:26 a.m.

MOTION: That this meeting be adjourned.

Megan G. Grumbine
Secretary