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
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
MINUTES OF THE MEETING OF THE BOARD MEMBERS

May 27, 2020

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a telephonic meeting of the Board members on May 27, 2020, at 10:00 a.m. Eastern Time at the Board’s offices at 77 K Street, N.E. 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; Ravindra Deo, Executive Director; Megan G. Grumbine, 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; Jay Ahuja, Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Sophie Dmuchowski, Acting Director of Participant Services; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Technology Officer; Barbara Holmes, Chief Audit Executive; Geoff Nieboer, Chief Data Officer; Ernest Witherspoon, Executive Advisor to the Executive Director; and Clifford D. Dailing, Chairman, Employee Thrift Advisory Council.

1. Approval of the Minutes of the April 27, 2020 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the April 27, 2020 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 April 27, 2020 be approved.

2. Monthly Reports.

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

a. Monthly Participant Activity Report

Ms. Dmuchowski reviewed the monthly participant activity report. See “Thrift Savings Fund Statistics, April 2020” (attached). Ms. Dmuchowski stated that the FERS participation rate increased in April to 93 percent and the active duty uniformed service participation rate increased to 71 percent. The active duty uniformed service participation rate has increased by 22 percent since the implementation of the blended retirement system in January 2018. Ms. Dmuchowski also highlighted a decrease in the rate of loans and withdrawals, which she noted has been trending down over the last several months at an average rate of 33 percent per month. Ms. Dmuchowski concluded her comments by noting a slight reduction in the number of calls to the contact center.
b. Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "April 2020 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey indicated that in April, BlackRock’s performance for the F Fund, the C Fund, and the S Fund was in line with the relevant benchmarks. I Fund performance underperformed relative to the international index by 3 basis points due to fair value pricing on the last day of April.

BlackRock’s performance for the F and C funds on a year-to-date basis is in line with applicable benchmarks. S fund performance lagged by 10 basis points relative to the benchmark, primarily due to futures mistracking. BlackRock’s year-to-date performance for the I Fund is 12 basis points ahead of benchmark, primarily due to tax advantage. Mr. McCaffrey noted that the on-going global pandemic has had a significant impact on the economy, but pointed out that equity markets continue to experience gains.

Specifically, the C and the S Funds experienced gains of 12.81 percent and 15.81 percent, respectively, and the I Fund increased by 6.42 percent, driven in part by a weaker U.S. dollar. The F Fund grew by 1.78 percent, the G Fund increased by .07 percent and the L Funds experienced gains as well. Mr. McCaffrey noted that global markets are also up for the month-to-date, and all Funds have experienced gains in May, as of May 26. Notably, the C Fund is up 34.19 percent since March 23.

With respect to inter-fund transfers, over $5 billion in plan assets were transferred out of the G Fund in April, the majority of which was moved to the S Fund and the C Fund. This is a reversal of the trend seen in March, when there was a significant increase of transfers into the G Fund. Mr. McCaffrey noted that inter-fund transfers in general have steadily decreased in April and May.

c. Legislative Report

Ms. Weaver reported that the Senate is currently in recess and the House of Representatives is back in session. The House recently passed a fourth stimulus bill that has not yet been taken up by the Senate. Armed Services committees in both the House and the Senate are currently considering the logistics of marking up defense authorization bills, which may be done remotely. The Agency is monitoring these bills for potential impact on the Thrift Savings Plan.

Chairman Kennedy asked Ms. Weaver when the Senate would return to Washington. Ms. Weaver indicated that they had taken a recess for the Memorial Day holiday and would be back in session shortly. Member Jasien asked Ms. Weaver if she had been contacted by any members of Congress regarding the previously proposed change to the I Fund benchmark. Ms. Weaver noted that she has not received any further inquiries from Congress on that matter.
d. Quarterly Metrics Report

Mr. Nieboer began his report by noting that the move to a socially-distanced environment has not affected the status of any Agency Key Performance Indicators. Aside from a brief decrease in L Fund participation, Agency KPIs have not been affected by the Agency’s move to mandatory telework for all employees and contractors.

Mr. Nieboer addressed Agency Strategic Goal C and noted that the F, C, S and I Funds investment metric was in the red for the current quarter. [See “FY20Q2 Board Report” (attached).] This metric measures whether the confirmation for daily trades was received from the TSP investment manager by 2:00 p.m. each day. In January, this confirmation was late on three separate occasions. Mr. Nieboer explained that there was a distinct issue that caused each of these three incidents. One incident was the result of a software change that delayed certain required reports by two minutes on January 13. A second software configuration change delayed the confirmation on January 28. The third incident, on January 31, occurred because Agency staff needed additional time to confirm that the investment submission for that day was accurate. There were no further occurrences in February or March. He also noted that there was no impact to the investments due to those 3 delays.

Mr. Nieboer addressed another Goal C metric, the external audit findings rate, which failed to meet the threshold of 23 findings. The Agency closed 15 audit findings internally. In addition, 19 closure packages have been submitted directly to the auditors. Mr. Nieboer indicated that the Agency will likely receive responses on these audits in either Quarter 3 or Quarter 4.

Mr. Nieboer concluded his remarks by addressing the full matching contribution rate. This metric, related to Goal D, fell short of the stated Agency goal. However, results remain over 10 percentage points higher than industry average, and increased from the previous quarter. In addition, Mr. Nieboer noted that the full matching contribution rate was incorrectly reported for the prior quarter. The correct rate was 76.1 percent.

e. Internal Audit Report

Ms. Holmes delivered an update on the Agency internal audit activities. [See Internal Audit Update, May 27, 2020 (attached).] The budget process audit was the first audit that was conducted by the Agency in 2020. The scope of this audit covered fiscal years 2019 through 2021 in order to capture all phases of the budget cycle. The objective was to determine if budget process controls were adequate and in compliance with agency budget policy and procedures. No findings were reported by internal audit, but they did provide some suggested improvements.

Ms. Holmes stated that the budget process audit is complete and the 2020 annual FISMA audit is currently underway. The government purchase card audit is also underway, but Ms. Holmes noted that it had been slightly delayed. The Agency does not anticipate that this delay will have a significant impact on the Agency audit plan.
Ms. Holmes indicated that the Agency is considering a change to the timing of an audit related to SPU as well another regarding the onboarding and off-boarding of contractors.

Another area of focus for internal audit has been reviewing old internal audit findings and the program offices’ remediation efforts on such findings. Ms. Holmes noted that there were 96 outstanding items in total, 84 of which have been closed. Of the remaining open items, one is in process and 11 are still open.

Chairman Kennedy asked Ms. Holmes for an update on open audit findings related to a 2017 audit of the TESS contract. Ms. Holmes indicated that some of those findings would be addressed in a future audit, while others are under review by the appropriate program offices. Ms. Holmes also pointed out that some of the outstanding audit findings were no longer relevant and that internal audit was working on addressing those appropriately so that they may be closed.

3. **Closing Comments.**

Prior to adjourning the meeting, Mr. Deo noted that the President had recently nominated three individuals to replace Board members whose term had expired. Mr. Deo thanked the members, Chairman Kennedy, Member Jones, and Member McCray, for their service to the Agency and briefly reviewed the accomplishments of the Agency during the departing Board members tenure.

Mr. Deo then invited Mr. Dailing to say some words regarding the departing Board members on behalf of the Employee Thrift Advisory Council. Mr. Dailing thanked the Board for its dedication and hard work on behalf of TSP participants and beneficiaries.

Following Mr. Dailing’s comments, Member Bilyeu and Member Jasien thanked Chairman Kennedy and Members Jones and McCray for their years of service to the Agency and expressed gratitude for their willingness to work together for the best interests of participants and beneficiaries.

Member Jones, Member McCray, and Chairman Kennedy each provided departing comments, thanking their fellow Board members, as well as Agency staff, for their hard work and dedication in furthering the mission of the Agency.

4. **Adjourn.**

On a vote taken by the Chairman, the members closed the meeting at 11:00 a.m. for executive session.

At 12:00 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 Chairman Kennedy adjourned the meeting at 12:01 p.m.

**MOTION:** That this meeting be adjourned.

[Signature]

Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
3. FY20Q2 Board Report
4. May Internal Audit Board Presentation