



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 19, 2020

David A. Jones, Acting Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 19, 2020, 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; Ronald D. McCray of Texas, member; William S. Jasien of Virginia, 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.

Acting Chairman Jones called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB) and welcomed everyone to the meeting.

1. Approval of the Minutes of the September 14, 2020 Board Member Meeting.

Acting Chairman Jones entertained a motion for approval of the minutes of the September 14, 2020 Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting that was held on September 14, 2020 be approved.

2. Investment Manager Annual Service Review.

Before introducing BlackRock, Mr. Deo gave opening remarks, including a brief summary of the meeting agenda. Mr. Deo noted the departure of Megan Grumbine, General Counsel and Board Secretary.

Kim Howells, FRTIB Relationship Manager at BlackRock, provided an introduction and overview of BlackRock, which is the asset manager for the C, S, F, and I Funds in TSP. She then introduced Mark McCombe, Senior Managing Director and Chief Client Officer, and Mr. McCombe's BlackRock colleagues.

i. Comments from Mr. McCombe

Mr. McCombe provided a general overview and outlook of the U.S. and global economies and discussed the economic recovery of various sectors impacted by the pandemic.

ii. BlackRock overview

Ms. Howells presented a review of assets under management by BlackRock. See “Investment Manager Annual Service Review” (attached). She noted that BlackRock manages approximately 400 billion dollars in TSP participant assets across the C, S, I, and F Funds.

Ms. Howells then introduced Alan Mason, Managing Director of BlackRock, to present additional information about the management of the C, S, I, and F Funds. Mr. Mason noted that participant activity was triple its usual levels in March and April of this year. He also noted that 2020 performance is identical to 2019 performance for inception-to-date numbers. He also noted the S Fund underperformed its benchmark primarily due to futures mis-tracking and securities sampling, while the I Fund has outperformed the benchmark as a result of tax advantage and securities lending.

Mr. Mason next introduced Scott Radell, Managing Director of BlackRock. Mr. Radell provided an overview of F Fund management. Mr. Radell stated that the F Fund is tracking its benchmark, despite the drop in fixed income prices during the pandemic.

Mr. Mason next introduced Jason Strofs, Global Head of Product Strategy, Trading and Liquidity Strategies, of BlackRock to deliver remarks on securities lending. In response to board member questions about securities lending risk management, Mr. Strofs explained that BlackRock evaluates counterparties, over-collateralizes its transactions, and indemnifies TSP as a final backstop to protect against borrower default. He highlighted the increase in TSP lending returns this year in contrast to the unfavorable interest rate environment in 2019.

3. Monthly Reports.

Following a 10-minute break at 11:00am, the open session continued at 11:09am with monthly reports.

a. Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See “August 2020 Thrift Savings Fund Statistics” and “September 2020 Thrift Savings Fund Statistics” (attached). He noted that full withdrawals for separated participants decreased while partial withdrawals continue to increase since the deployment of

additional withdrawals. Participation rates continue to increase with FERS at 93.4 percent and active duty uniformed services at 71.3 percent, respectively. Hardship withdrawals continue to trend downward.

b. Legislative Report

Ms. Weaver shared that the Senate was to vote on the Supreme Court nominee sometime during the week after the board meeting. The House was out of session during that same week. Both chambers were expected to be out of session until after the November 3<sup>rd</sup> elections. .

4. Quarterly Reports.

a. Investment Policy

Mr. McCaffrey reviewed the monthly investment performance report. See “September 2020 Performance Review – G, F, C, S, I, and L Funds” (attached). Mr. McCaffrey noted that BlackRock’s performance for the F Fund was in line with the Fixed Income Index and its performance for the C Fund matched the Large Cap Index returns. It underperformed the Small- Mid-cap index for the S Fund by five basis points, primarily due to securities sampling. BlackRock’s performance for the I Fund was in line with the International Index.

Despite continued improvement in the labor market, U.S. equities pulled back from their all-time highs, according to reports, as some investors worried that recent stock gains had outpaced the economic recovery. The Federal Reserve kept its target interest rate range unchanged, citing low inflation as well as uncertainty surrounding the ongoing pandemic. The C and S Funds posted losses. The I Fund also fell, hampered by a stronger U.S. dollar. The F Fund had a slight loss. All the L Funds finished lower.

For the F and C Funds year-to-date, BlackRock's performance was in line with the Funds' respective indices. For the S Fund, it underperformed the Small Mid Cap Index by 22 basis points, primarily due to securities sampling and futures mis-tracking. Its performance for the I Fund year-to-date exceeded the performance of the International Index by 33 basis points, primarily due to tax advantage and futures mis-tracking.

For the month of October through Friday, October 16, equity markets have moved to positive territory. The C Fund is ahead by 3.66 percent. The S Fund is up 7.42 percent and the I Fund has gained 1.51 percent. In fixed income, the F Fund is just slightly positive at 0.03 percent. The G Fund is better by 0.03 percent.

Mr. McCaffrey noted that as of September 30, 2020, there were over 2.7 million participants who owned at least one L Fund. L Fund participation climbed approximately 30,000 in September. Much of that growth, as expected, was attributable to new Blended Retirement System participants automatically enrolled in the L 2055, L 2060, and L 2065 Funds. There are almost 1.64 million participants who have all of their account in L Funds.

He also shared that overall IFT activity for September was a bit higher than the long-term median; however, the numbers remain relatively small. The G Fund was the primary beneficiary of net outflows from the C and S Funds.

Mr. McCaffrey then provided quarterly updates, noting that an audit conducted of BlackRock's proxy voting found no exceptions to established guidelines during the second quarter of 2020.

With regard to class action settlements, he explained that there were 57 claims open at the start of the second quarter of 2020. Twelve claims were opened during the quarter. One claim was settled in the C Fund for almost 20,000 dollars and another was closed due to administrator action. Four claims were settled in the S Fund for a total of about 150,000 dollars, and two claims were closed due to administrator action. At the end of the quarter, 61 claims remained open. For year to date, 19 claims have been settled for a total of about 641,000 dollars.

The Board voted to reaffirm the investment policies of the G, C, S, I and F Funds.

#### b. Budget Review

Ms. Crowder discussed the fourth quarter budget review. See "FRTIB FY 2020 4th Quarter Budget Review" (attached). Ms. Crowder explained that the agency ended the fiscal year executing around 102 percent against the fourth-quarter spend plan target. For the fiscal year 365.6 million dollars, or 95 percent, was executed. She noted that of the 365.6 million dollars executed, approximately 247.5 million dollars, or 68 percent, support record-keeping operations and maintenance. Average assets for fiscal year 2020 were at 619.6 billion dollars.

#### c. Audit Status

Mr. Boone conducted the audit status review and Mr. Deo provided the remediation update. See "Audit Status/Security & Remediation Status" (attached). Seven audits have concluded, five are in progress, and 12 are planned for this year. One audit is running late due to the pandemic, so that report will be done in November. EBSA will conduct nine audits in FY 2021, which are expected to be done within the fiscal year. Mr. Boone also provided a report of the Withdrawals Process Audit. Of the ten prior year audit recommendations, all were closed and KPMG issued no new audit recommendations.

Mr. Deo discussed audit closures, noting that the FY 2020 target for 125 audit closures was surpassed with 128 audit closures. Forty-nine audit closures are projected in the coming year. He explained that the Agency began the year with 280 open findings according to FRTIB's count, leaving 183 at year end after the Agency closures in FY2020. Lastly, Mr. Deo explained how the agency assesses the risk of audit findings, noting that for the upcoming audit year, the remediation focus will be on findings at the "critical" and "high" risk levels.

In response to board member questions regarding the difference in audit finding closure targets between last year and this year, Mr. Deo explained that the RKSA procurement will likely resolve many open findings and the significant annual target adjustment from 128 to 49 reflects that expectation.

5. Mid-Year Financial Review.

Ms. Crowder introduced Mr. Thomas Rey from Clifton Larsen Allen, who discussed the mid-year financial statement review. See "CLA Mid-Year Review" (attached). The midterm review covered the Thrift Savings Fund financial statements for the six months ended June 30, 2020. CLA stated that they were not aware of any material modifications that should be made to the interim financial information for it to be in conformity with generally accepted accounting principles. CLA did not express an opinion on internal controls. CLA concluded its presentation by summarizing prior recommendations.

6. Enterprise Risk Management Update.

Ms. Tosini provided the enterprise risk management update. See "Enterprise Risk Management (ERM) Update" (attached). Ms. Tosini, who is also the Acting Chief Risk Officer as well as COO, explained that the agency's current enterprise risk management framework is repeatable and yielding results. This year, the agency identified 17 risks that were ranked as high, medium-high, or medium, with risk treatment plans in place to address the six high and medium-high risks. This is down from 21 risks in those categories last year. The six high and medium-high risks are in the areas of insider threat, information security, disaster recovery and business continuity, data privacy, fraud detection, and acquisition planning.

Ms. Tosini highlighted FRTIB's participation in an OMB pilot program aimed at improving enterprise risk management across the government.

7. Adjourn

On a vote taken by the Acting Chairman, the members closed the meeting at 12:00 p.m. for executive session.

At 1:40 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 1:40 p.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee  
Acting Secretary

#### Attachments

1. Investment Manager Annual Service Review
2. August 2020 Thrift Savings Fund Statistics
3. September 2020 Thrift Savings Fund Statistics
4. September 2020 Performance Review – G, F, C, S, I, and L Funds
5. FRTIB FY 2020 4th Quarter Budget Review
6. Audit Status/Security & Remediation Status
  - a. Audit Report Summary - Withdrawals
7. CLA Mid-Year Review
8. Enterprise Risk Management (ERM) Update