FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 26, 2021

David A. Jones, Acting Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 26, 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; 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.

1. Approval of the Minutes of the December 21, 2020 Board Member Meeting.

Acting Chairman Jones entertained a motion for approval of the minutes of the December 21, 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 December 21, 2020 be approved.

2. Monthly Reports.

Mr. Deo gave opening remarks, including a summary of the agenda for the meeting and a brief recognition of the Office of Communications and Education's recent Eddy Award for the five-year Lifecyle (L) Funds rollout.

a. Participation Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Mr. Ramos announced that plan assets climbed to 710 billion dollars in December and the total number of TSP participants reached 6.2 million. Hardship and loan withdrawal volumes for the year were approximately 18 percent lower than the previous year, likely driven by Coronavirus Aid, Relief, and Economic Security (CARES) Act withdrawals and loans. Contact Centers continued to experience high call volumes, with My Account related questions as the most common subject. Mr. Ramos reported just under 10,000 active participants requested CARES Act withdrawals in the month of December and just under 120,000 participants requested CARES Act withdrawals since the withdrawal option was initiated.

Mr. Ramos provided a brief timeline of the CARES Act, which was signed into law on March 27, 2020. On April 14 required minimum distributions were suspended for 2020, and on June 13 the TSP offered suspension of loan payments and the maximum loan amount was increased from 50,000 dollars to 100,000 dollars. On July 11, CARES Act withdrawals were initially offered. September 22 was the last day CARES Act loans were permitted. December 29 was the last day CARES Act withdrawals were processed, and on December 30 loans suspended through the CARES Act became active again. New terms and payments were established for the unsuspended loans and the approximately 6,000 impacted participants were notified.

Mr. Ramos ended the report by noting the CARES Act program was well-utilized and appreciated by participants. Member McCray asked for details regarding the contributing factors to the increase in TSP participation. In response, Mr. Deo noted the Blended Retirement System, a strong market, and a consistent message of saving diligently as major contributing factors for increased TSP participation throughout 2020.

b. Legislative Report

Ms. Weaver reported that Senator McConnell agreed to move forward with the power-sharing agreement necessary for Senate committees to reorganize. Senator Garry Peters will act as the new Chair of the Homeland Security and Governmental Affairs Committee. Senator Rob Portman, the in-coming ranking member of the Senate committee, announced he will not seek reelection in 2022. Congresswoman Carolyn Maloney remains the chair of the House Committee on Oversight and Reform, while Congressman James Comer remains the ranking member. Subcommittees in both chambers of Congress are not yet finalized.

Several bills relevant to the TSP, mainly dealing with Federal Employees' Retirement System (FERS) member benefits, were introduced in the House of Representatives. A common theme among the bills allowed members to opt out of the FERS defined benefit while continuing to participate in the TSP. The bills were repeat attempts of previous legislation, which Ms. Weaver opined are not likely to move forward.

c. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. See "December 2020 Performance Review – G, F, C, S, I and L Funds" (attached). For December, BlackRock's performance for the F, C, S, and I Funds was in line with the funds' respective indices. Mr. McCaffrey reported that all the equity funds ended December on a positive note as investors looked ahead with optimism despite rising pandemic cases and the Federal Reserve's citing of an uncertain economic outlook. The G and F Funds closed the month higher as well. Performance of the Funds flowed through to the performance of the L Funds, with each L Fund generating positive performance in line with its respective age-appropriate risk profile.

Mr. McCaffrey reported BlackRock's performance for the F Fund exceeded the Fixed Income Index by 4 basis points in 2020, primarily due to securities lending. BlackRock's performance for the C Fund was in line with the Large Cap Index, while performance for the S Fund lagged the Small-Mid Cap Index by 23 basis points, primarily resulting from securities sampling and futures mistracking. BlackRock's performance for the I Fund was ahead of the International Index by 44 basis points, primarily due to tax advantage and futures mistracking. On an absolute basis, equity returns were remarkably positive for the year, Mr. McCaffrey said. He noted that the C Fund fell almost 34 percent from its February 19 high to its low for the year on March 23, followed by a rise from the low point to over 70 percent by the end of the calendar year. In those same timeframes, the S Fund fell over 41 percent and subsequently rose over 114 percent to the end of the year.

From the end of December 2020 through Monday, January 25, equity fund performance was positive. The C Fund was ahead 2.73 percent. The S Fund was up 7.11 percent and the I Fund advanced 1.85 percent. The F Fund was down 0.52 percent while the G Fund was ahead 6 basis points.

Mr. McCaffrey concluded his monthly report by noting that since the six new L Funds were launched on July 1, 2020, assets continued to flow into the L Funds thanks to automatic enrollment of new participants, interfund transfers, and contribution allocation changes by existing participants. Through the first six months of their existence, the new L Funds have attracted over 300,000 investors and over 11 billion dollars in assets.

3. <u>Quarterly Reports</u>.

a. Investment Policy

Mr. McCaffrey followed the monthly report with the quarterly update on Investment Policy. An audit conducted of BlackRock's proxy voting found no exceptions to established guidelines during the third quarter of 2020.

Mr. McCaffrey next reviewed class actions for the third quarter. There were 61 class action settlement claims open at the start of the third quarter of 2020. Fifteen claims were opened during the quarter, while two claims were closed in the C Fund due to Administrator action. For the S Fund, one claim was closed due to Administrator action and three claims were settled for a total of 223,846 dollars. For the I Fund, one claim was closed due to administrator action. At the end of the quarter, 69 claims remained open. Mr. McCaffrey reported that for the year to date, 27 claims were settled for a total of approximately 865,000 dollars.

Acting Chairman Jones entertained a motion to affirm the current investment policies. The Board members made, seconded, and adopted the following resolution by unanimous vote:

RESOLUTION:

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 *et seq.*) provides the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f) (1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Common Stock Index Investment Fund, the Fixed Income Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

b. Audit Status

Mr. Brack Boone, Audit Management Division Chief, provided an update of the external audit activity. See "Audit Status/Security & Remediation Status" (attached). Mr. Boone stated that in fiscal year (FY) 2021, five audits were completed, including three planned audits for FY 2020 that were postponed due to the pandemic. Mr. Boone reported five audits in progress, with three additional audit entrance conferences occurring since December 31. As a result of the Board Administrative Staff audit, six audit findings were closed, three prior year recommendations remained open, and two new recommendations were opened. The FY 2021 Mainframe audit resulted in eleven closed findings, zero new findings, and forty-five open prior year recommendations.

Mr. Deo noted that 40 audit findings were closed in the first quarter of FY 2021 (Q1), exceeding the expected 8 audit closures for the quarter. Mr. Deo explained the exceptional results by noting 16 audit findings were closed by auditors that the Agency did not expect to be closed. Mr. Deo reported that the Agency's four critical audit findings were reduced to a risk ranking of zero through remediation, and of the 48 high-risk audit findings, all but 20 were lowered to a lesser risk rating. As a result, moderate findings increased from 55 to 75. Low-risk findings increased from 27 to 36, while the total number of findings decreased.

Mr. Deo concluded the audit status discussion by showing the open vulnerabilities over time resulting from external scans (NCATS). The Agency has never had a critical or high vulnerability, while medium and low findings are kept at a manageable threshold. As of year-end, the Agency had no vulnerabilities at any risk level. Member Jasien congratulated the Agency on remediation efforts and asked what impact the progress would have on 2021 objectives. Mr. Deo responded that he hoped that there would be 40 more closures for the year, totaling 80 closures for 2021.

c. Quarterly Budget Review

Ms. Crowder reported on the quarterly budget update. See "Quarterly Budget Review" (attached). The Agency executed 101 percent of the Q1 targeted spend plan. Approximately 60 percent of the overall budget was executed in Q1, which represents roughly 301.4 million dollars of the overall budget of 498.4 million dollars. Ms. Crowder noted the FY 2021 budget allocation was expected to re-align with expectations by the end of Q2, having funded all large recordkeeping contracts in support of steady state operations and the recordkeeper transition.

Ms. Crowder noted that of the 301.4 million dollars executed as of December 31, 2020, 85 percent, or approximately 255.8 million dollars, was executed to support recordkeeping operations, maintenance, and transition to the new recordkeeper per the Recordkeeping Services Acquisition (RKSA).

4. Annual Expense Ratio Review.

Ms. Crowder provided the annual review of TSP administrative expenses for 2020. See "Annual Expense Ratio Review" (attached). As of December 31, 2020, the Plan has grown to 710 billion dollars. Net assets averaged 613 billion dollars for 2020, roughly seven percent higher than in 2019. Accrued administrative expenses for the 2020 calendar year increased 62 million dollars to a total of 371 million dollars, representing approximately 20 percent growth, which is in alignment with budget growth over the previous two fiscal years.

Ms. Crowder reported that forfeitures increased approximately 5 million dollars and loan fees decreased approximately 2 million dollars, resulting in a 59 million dollar total for net administrative expenses. The growth in administrative expenses was slightly larger than the growth in average net assets. The gross and net administrative expense ratio increase resulted in 5.9 and 4.9 basis points, respectively. Ms. Crowder noted that both positive and negative cash flows increased. Since 2019, positive net cash flow increased by 1.1 billion dollars and the TSP ended 2020 with a positive net cash flow of 9 billion dollars.

Following the presentation, Member Jasien requested expense ratio projections for the next three to five years. Acting Chairman Jones, Member Bilyeu, and Member McCray raised questions regarding a downward trend for administrative expenses in the long term, as a result of the transition to RKSA. Mr. Deo and Ms. Crowder confirmed that administrative expenses are expected to trend downward in the future.

5. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, provided the internal audit update. See "Internal Audit Update" (attached). Ms. Holmes reviewed the status of the 2020 and 2021 internal audit plans, the audit reports for the Special Processing Unit (SPU), Onboarding/Offboarding of Contractors, independent verification and validation (IV&V) status and other internal audit activities. All planned 2020 audits were completed. Audits for 2021 were in the planning stages, with the first audit expected to start in February. The Procurement and Contract Management audit was moved to the 2022 audit plan.

Ms. Holmes reported that the SPU audit was a limited scope audit resulting in no notice of findings and recommendations (NFRs) and one suggestion for improvement, which the SPU agreed to and remediated. The Onboarding/Offboarding of Contractors audit resulted in four NFRs, including three medium rated risk findings, and one low rated risk finding. The low-rated risk finding was remediated and corrective action plans were required for the medium rated risks to ensure prompt closure.

Ms. Holmes provided a summary of the IV&V process, including phases completed in FY 2021. Ms. Holmes reported that 42 remediation packages were reviewed and independently validated. Member McCray noted the positive impact of the internal audit work and asked if the Employee Benefits Security Administration (EBSA) provided comments about any of the audit findings relevant to IV&V. Mr. Deo noted that while EBSA is not involved in the internal portions of the IV&V process, EBSA will conduct an audit of the IV&V packages for closed audit findings to confirm findings are closed.

6. Multi-Asset Manager Update.

Mr. McCaffrey provided the update for the Multi-Asset Manager project. See "Multi-Asset Manager Update" (attached). In October, the Agency confirmed State Street Global Advisors (SSGA) as the TSP's second asset manager, joining BlackRock Institutional Trust Company. Since then, the Office of Investments, with the assistance of other Agency Offices, has worked toward the onboarding of SSGA and making plans for the partial transfers of assets. FRTIB and SSGA have worked to set up and test the network over which investment instructions and earnings reports will flow daily. The Agency, BlackRock, SSGA, and a transition consultant have participated in regular calls to ensure that all parties understand the requirements for the partial transfers of assets from BlackRock to SSGA. As the first transfer date nears, testing will occur, giving all parties the opportunity to identify and resolve potential issues.

Mr. McCaffrey outlined the Agency's intention to conduct the partial transfer of assets sequentially beginning with the C Fund in month one, going next to the S Fund in month two, and then finally to transfer F Fund assets in month three, as fixed income is thought to be the more complicated asset class. The Agency previously baselined the transfer of assets for these first three funds over January, February, and March of 2021. However, out of an abundance of caution and to prioritize flawless execution over expediency, Mr. McCaffrey reported that the partial transfer of assets was re-baselined to April, May, and June of 2021.

7. Recordkeeping Services Acquisition (RKSA) Update.

Mr. Ramos provided an update on RKSA. See "RKSA Update" (attached). Mr. Ramos provided an overview of the contract award, the transition team structure, a program roadmap, project status, key delivery milestones, and key benefits and enhancements RKSA will provide. The contracting process started with the analysis of alternatives in 2016 and closed with the final RKSA award on November 13, 2020. The planned go-live date for RKSA is projected for mid-2022; a formal date will be set as project plans are finalized in the coming weeks. The transition team structure includes an Accenture and an FRTIB contact, with program managers at the top of the organizational chart. Program managers preside over five key functional towers and each tower has a leader with subject matter expertise in the tower's functional area. Each tower lead is supported by several integrated project team members. FRTIB's functional towers align directly with the Accenture delivery team to provide accountability and access for contractor requests and decision making.

Mr. Ramos stated that RKSA is divided into three distinct phases: deliver, enable, and operate. In the delivery phase, RKSA efforts center around configuration of the recordkeeping solution, conversion of data, and confirmation of the people and processes as established. FRTIB has accepted most of the planning deliverables and is shifting focus to configuration and data conversion. The initial data conversion with anonymized data is scheduled for June 2021. The enablement phase focuses on rehearsal, testing, refinement of services, authorization to operate (ATO), and the assessment of key functionalities. During the ATO process, FRTIB will determine readiness to go live by conducting system and process testing of the new platform. The operate phase consists of steady operations of the developed recordkeeping capabilities by Accenture with continuing innovation efforts.

Mr. Ramos reported that the Accenture team has identified dozens of milestones over the 10 to 24-month deployment schedule across all of the functional towers. Accenture and FRTIB identified 12 milestones as the most important in the RKSA transition and indicative of overall progress and program health. Key milestones were selected based on their importance to the overall program, distribution throughout the deployment, and the inherent level of risk. After a brief overview of the 12 milestones, Mr. Ramos concluded by providing an overview of the key features and benefits of RKSA overall.

Mr. Deo spoke to the enormous scale of the TSP as a plan and scale of the RKSA project, to note that a successful transition to RKSA and maintenance of exceptional administration of the TSP requires significant FRTIB effort and resources. Member Jasien expressed his appreciation for the RKSA effort and requested the Board receive regular updates on RKSA progress. Mr. Ramos responded that the Board will be updated at least quarterly.

8. Adjourn

On a vote taken by the Acting Chairman, the members closed the meeting at 11:12 a.m. for a brief executive session. The members reconvened and the meeting was adjourned at 12:07 p.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee
Acting Secretary

Attachments

1. a. Thrift Savings Fund Statistics Overview
   b. Thrift Savings Fund Statistics
2. December 2020 Performance Review – G, F, C, S, I, and L Funds
3. a. Audit Status/Security & Remediation Status
   b. 2020 Mainframe Configuration and Security Controls
   c. 2020 Policies and Procedure of the FRTIB Administrative Staff
4. Quarterly Budget Review
5. Annual Expense Ratio Review
6. Internal Audit Update
7. Multi-Asset Manager Update
8. RKSA Update