FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 24, 2022

David A. Jones, Acting Chairperson of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 24, 2022, at 10:00 a.m., Eastern Standard 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 South Carolina, member; Ravindra Deo, Executive Director; Dharmesh Vashee, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director; Kimberly A. Weaver, Director, Office of 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; Thomas Brandt, Chief Risk 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 December 17, 2021 Board Meeting.

Acting Chairperson Jones entertained a motion for approval of the minutes of the December 17, 2021 Board meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board meeting held on December 17, 2021 be approved.

2. Monthly Reports.

Mr. Deo gave opening remarks, welcomed the Agency's new Chief Risk Officer, Thomas Brandt, and provided a brief summary of the agenda for the meeting.

a. Participant Activity Report

Mr. Ramos reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics December 2021" (attached). Mr. Ramos highlighted that the number of participants who received residual required minimum distribution (RMD) payments increased in December 2021 when compared to 2019, as did the total dollar amounts of those payments. The number of residual payments increased from 30,528 in 2019 to 51,201 in 2021, an increase of approximately 68 percent with resulting payments increasing from 144,633,796 dollars in 2019 to 356,985,771 dollars in 2021. He went on to note that national labor supply and COVID-related absences have affected the contact center's ability to recruit, hire, and retain staff, which has had an impact on phone service level rate (SLR). FRTIB is working with vendors to address these challenges.

In response to a question from Member Jasien, Mr. Ramos shared that call abandonment rates are at one percent, with eMessaging response at 100 percent, written correspondence response at 97 percent and phone response at 86 percent, noting that TSP maintains high SLR standards that are more aggressive than industry standard.

b. Legislative Report

Ms. Weaver began by noting that there was no TSP nor FRTIB-related legislation introduced in January 2022. She went on to briefly discuss the appropriations bills set to expire on February 18, 2022, with Congress working on an extension of funding through the end of the fiscal year upon their return from recess next week.

3. Quarterly Reports.

c. Investment Policy

Mr. McCaffrey reviewed the monthly investment performance report. See "December 2021 Performance Review" (attached).

In December 2021, BlackRock's performance for the F Fund trailed the Fixed Income Index returns by seven basis points, primarily due to differences in the timing of pricing by the index provider and by BlackRock on the final trading day of December. The underperformance attributable to the price differential reversed on the first trading day of January. Its performance for the C Fund was in line with the Large Cap Index. For the S Fund, it outperformed the Small Mid Cap Index by four basis points, primarily resulting from futures mis-tracking. Its performance for the I Fund was in line with the International Index.

State Street's December 2021 performance for the F Fund was in line with the Fixed Income Index for the month. Its performance was also impacted by differences in the timing of the index pricing and the portfolio pricing. In this case, other factors offset most of the underperformance in its December results. Just as with BlackRock, on January's first trading day, there was some reversal of the pricing difference. State Street's performance for the C Fund was in line with the Large Cap Index. For the S Fund, it outperformed the Small Mid Cap Index by three basis points, primarily due to futures mis-tracking.

Equity markets rallied in December despite both employment growth coming in below estimates and a new coronavirus variant that fueled a surge in cases. The C, S, and I Funds rose, completing a very strong year for equities overall, especially for the C Fund. The Federal Reserve left its target short-term interest rate range unchanged at 0 - 25 basis points, but did acknowledge inflationary pressures, signaling its intent to scale back monetary stimulus in the coming months. Long-term interest rates, however, edged higher in December, contributing to a monthly loss for the F Fund. All the L Funds posted gains in December.

When reviewing BlackRock's full year performance, Mr. McCaffrey noted that for the F Fund, BlackRock's performance was 12 basis points better than the Fixed Income Index returns, primarily resulting from securities lending. Its performance for the C Fund was in line with the Large Cap Index returns. For the S Fund, its performance exceeded the Small Mid Cap Index by 14 basis points, primarily due to securities lending. Its performance for the I Fund was ahead of the International Index by 24 basis points, primarily due to tax advantage. Mr. McCaffrey provided a reminder that beginning later this year, he will report year-to-date performance for both investment managers because calendar year 2022 will be State Street's first full year as an asset manager for the TSP.

For the current month through Friday, January 21, both equities and fixed income prices have gone lower. In equities, the C Fund is down 7.66 percent, and the S Fund has a loss of 12.51 percent. In international markets, the I Fund also has lost 2.99 percent. In fixed income, the F Fund has a loss of 1.70 percent. The G Fund is ahead by 0.09 percent.

During December, participation in the L Funds increased by about 32,000 individuals, driven largely by automatic enrollment of new participants. The growth of participation in the L Funds over the month and over the past year has been well within expectations.

Mr. McCaffrey next discussed interfund transfers (IFT), noting that in December, about two percent of Plan participants chose to do an IFT. This is in keeping with the theme that the vast majority of participants do not execute an IFT in a given month.

Moving on to the quarterly proxy voting and class action settlements report, Mr. McCaffrey explained that it covered the third quarter of calendar year 2021 for both BlackRock and State Street. Audits of BlackRock and State Street's proxy voting conducted by ISS found no exceptions to either asset manager's established guidelines.

For BlackRock, the third quarter began with 67 open claims in class action settlements. Five claims were opened in the C Fund and 13 claims were opened in the S Fund. Overall, 12 claims were settled for a total of 1,057,433 dollars. Three claims were settled in the C Fund for 530,284 dollars and eight claims were settled in the S Fund for a total of 522,496 dollars. One claim was settled in the I Fund for 4,432 dollars. Residual payments from two closed S Fund claims yielded an additional 221 dollars. Because of administrator action, one claim was closed in the C Fund and four claims were closed in the S Fund, bringing total closed claims to 17. Sixty-eight claims remained open across the four Funds at the end of the quarter.

For State Street, there was no securities litigation activity reported for the quarter.

Acting Chairperson Jones entertained a motion to continue the current policies for the G, F, C, S, and I Funds. The following motion was made, seconded, and adopted without objection:

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

d. Audit Status

Mr. Deo and Ms. Crowder reviewed the audit and security remediation status. See "Audit – Remediation Status January 2022" (attached). Ms. Crowder began by reviewing recent trends in the Agency's external audits, noting a high of 20 external audits in fiscal year 2019 and a low of seven in fiscal year 2020. There are nine external audits in fiscal year 2022. As of the end of the first quarter, two have been completed, four are in progress, and three have not yet started.

Mr. Deo began his review of Agency remediation efforts by noting the Agency reorganization that resulting from the merger of the Office of Enterprise Risk Management with the Office of Enterprise Planning to form the new Office of Planning and Risk, and placement of the audit group in the Office of the Chief Financial Officer. He reported that the Agency met its audit closure goal of 29 for fiscal year 2022 by completing 30 closures in the first quarter. While 90 audit recommendations across fiscal years 2013 to 2021 remain open, Mr. Deo noted that the Agency focus is to prioritize closing audits based on risk ranking as opposed to age.

e. Budget Review

Ms. Crowder provided the quarterly budget update. See "FY 2022 1st Quarter Budget Review" (attached). The Agency budget for FY 2022 is 496.8 million dollars. First quarter spending analysis shows the Agency is behind in budget projections by allocating 78 percent of the budget relative to the Q1 spend plan. First quarter execution was 45 percent of the total budget, the bulk of which was spent in support of current, and the transition to future, recordkeeping operations.

4. Annual Expense Ratio.

Ms. Crowder presented the annual review of TSP administrative expenses for 2021. See “2021 TSP Annual Expenses” (attached). Ms. Crowder began by highlighting the December 31, 2021 TSP plan balance of 812 billion dollars. Ms. Crowder noted that Administrative expenses are spread across the calendar year. The 2021 average net assets for the plan were 763 billion dollars, a 21 percent increase from the previous year. Administrative expenses for 2021 increased by 30 million dollars to 401 million dollars, in line with budget projections. Total forfeitures and loan fees collected in 2021 offset the Agency’s gross administrative expenses by 74 million dollars resulting in an overall increase in net administrative expenses of 19 million dollars, or 327 million dollars in total net administrative expenses. The TSP, thanks to both prudent expenditures and increasing assets, had a net expense ratio of 4.3 basis points for 2021. TSP ended 2021 with a positive net cash flow of 8 billion dollars.

In response to a question from Member Jasien on the expense ratio forecast for 2022, Ms. Crowder noted that the gross expense ratio forecast is 6.2 basis points.

5. Financial Systems Modernization (FSM) Update.

Ms. Crowder and Ms. Khatrina Higgs, Financial Systems Modernization Program Manager, provided an update on the financial systems modernization effort. See “Financial Systems Modernization (FSM) Update” (attached). On January 14, 2022, the Agency launched its new integrated financial, acquisition, and travel systems. This modernization effort was a 15-month digital transformation away from the Agency’s custom legacy IT systems to the use of modern, commercial-off-the-shelf (COTS) solutions. The new financial systems are hosted via shared service provider, the Department of the Interior’s Interior Business Center (IBC). The new system consists of Oracle Federal Financial for budget and accounting, PRISM for acquisitions, and E2 for automated travel booking and reimbursements. These new solutions automate processes, which reduce errors and delays and provide data transparency.

6. Converge Update.

Mr. Tanner Nohe, Converge Program Manager, provided an update on Converge. See “Converge Update for January 2022” (attached). Mr. Nohe began by noting that while data testing continues, the most recent iteration is the first time Accenture Federal Services (AFS) is testing with live, non-anonymized data. This comes as a result of the conditional authorization to operate (ATO) issued in December 2021. This round of testing will continue through February 2022. Payroll office readiness efforts are on track, with 20 percent of interconnection security agreements completed and the remaining in progress. Other preparations for launch continue, such as verifying and credentialing authorized users at other federal agencies and finalizing portal training for agencies, which is how agencies will submit employee contribution data in the future.

7. Adjourn.

Whereupon there being no further business, the following motion was made, seconded, and adopted without objection and Acting Chairperson Jones adjourned the meeting at 10:52 a.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics December 2021
2. December 2021 Performance Review
3. Audit – Remediation Status January 2022
4. FY 2022 1st Quarter Budget Review
5. 2021 TSP Annual Expenses
6. Financial Systems Modernization (FSM) Update
7. Converge Update for January 2022