



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 26, 2022

Michael Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 26, 2022, at 10:00 a.m., Eastern Daylight Time. The meeting was held at the Board's offices at 77K Street NE and was open to the public via video teleconference. In attendance were Dana K. Bilyeu of Oregon, member (by telephone); Leona Bridges of California, member; David Jones of Connecticut, member; Stacie Olivares of California (by telephone); Ravindra Deo, Executive Director; Dharmesh Vashee, General Counsel and Secretary; Susan Crowder, Chief Financial Officer (by telephone); Kimberly A. Weaver, Director, Office of External Affairs; 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 Thomas Brandt, Chief Risk Officer.

Welcome and Introductions.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:00 a.m. Chair Gerber noted that this is the first in-person board meeting since February of 2020. He went on to express gratitude for the current and former Board members and for the Agency's staff.

1. Approval of the Minutes of the June 28, 2022 Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the June 28, 2022, Board meeting, with one correction. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on June 28, 2022, be approved.

2. Monthly Reports.

Mr. Deo gave opening remarks, including 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 June 2022" (attached). He stated that June marks the first month of Converge operations reporting. Participant interactions increased for the

month particularly around the areas of loans, withdrawals, and account setup. The increases around loans and withdrawals were likely due to pent up demand from the blackout period as well as the availability of a newly added second general-purpose loan. Court order and death benefits processing volumes decreased for the month due to the new vendor working through validation requirements. These volumes should increase in July.

Mr. Ramos indicated that over 1.1 million participants successfully logged into their accounts in June and most participant interactions took place over the internet, mobile app, and through chat. However, the contact centers encountered significant delays. The Plan processed 1,967 loans per day in June, up from an average of 1,000 loans a day in 2021. In 2021, the Plan averaged 13,000 withdrawals daily. In June 2022, there was a 12 percent increase with 14,465 withdrawals processed daily. Mr. Ramos expects these volumes to normalize into July and August. The Plan processed 867 inbound payroll files during the month, and all payroll providers were able to process at least one contribution into the Plan.

Mr. Ramos explained that the contact center delays were due to very high call volumes. The contact center averaged 34,000 calls daily in June and averaged 42,000 calls daily in the first two weeks after transition. During June, the contact centers received just under a million calls as compared to 181,000 calls in June of 2021. In the first 45 days since go-live, the contact centers received 1.2 million phone calls as compared to 2.5 million calls in all of 2021. Immediately after transition, hold times were a little over two hours, but as of last week, they are down to 15 minutes on average. While hold times are still longer than is expected, the contact centers are currently answering the highest volume of calls in Plan history.

Immediately after go-live, most calls were related to login issues. To remedy this, the vendor adjusted the account login process. Now, 90 percent of participants can log into the system without issue, which is the target percentage to prevent bad actors from accessing participant accounts. In June, the vendor added 550 new agents and will add an additional 500 by the end of July. The vendor also made changes to its contact center management team, which led to an improvement in call response rates.

In response to a question from Member Jones regarding how long it will take for call wait times to normalize, Mr. Ramos indicated that optimistically this should occur by mid-August. Mr. Ramos further stated that the numbers as of last week show the abandonment rate is returning to normal, but to ensure these changes are sustainable, he would need to see more data. However, Mr. Ramos expects that the wait times should return to normal levels by the end of August at the latest.

b. Legislative Report

Ms. Weaver reported that the House of Representatives passed the Department of Defense authorization bill last week. The bill did not have any TSP-related provisions affecting the Plan. The House is planning to recess at the end of the

week and will return after Labor Day. The Senate is planning to be out of session by the end of the first week of August and will also return after Labor Day.

Ms. Weaver stated that Congresswomen Eleanor Holmes Norton, Abigail Spanberger, and Jennifer Wexton along with Congressmen Gerald Connolly, Jamie Raskin, and Donald Beyer, Jr. sent a letter to the Government Accountability Office (GAO) requesting an investigation into the Converge transition. Ms. Weaver indicated that while the GAO does not always respond to investigation requests, given the number of Congressional representatives on the request and the high-profile nature of the transition, the GAO may choose to respond and investigate.

3. Quarterly Reports.

a. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. See “June 2022 Performance Review – G, F, C, S, I, and L Funds” (attached). Mr. McCaffrey reported that for the month of June, BlackRock’s performance for the F Fund exceeded the Fixed Income Index’s return by six basis points, primarily due to securities lending. Its performance for the C Fund was in line with the Large Cap Index. For the S Fund, BlackRock outperformed the Small Mid Cap Index by four basis points, primarily due to securities lending. Its performance for the I Fund was ahead of the International Index by 38 basis points, primarily due to fair value pricing.

Mr. McCaffrey stated that State Street’s performance for the F and C Funds was in line with the Funds’ respective indices for the month of June. For the S Fund, State Street outperformed the Small Mid Cap Index by five basis points, primarily due to securities lending.

As a result of the TSP’s recordkeeping transition at the end of May, market movements from the last two trading days in May are reflected in the June returns of the Funds discussed above, but not in the returns of the benchmark indices. This explains the larger-than-normal tracking errors between the Funds and their benchmark indices for the month.

Year-to-date, BlackRock’s performance for the F Fund was ahead of the Fixed Income Index by 37 basis points, primarily due to securities lending. Its performance for the C Fund was in line with the Large Cap Index. For the S Fund, BlackRock outperformed the Small Mid Cap Index by 20 basis points, primarily resulting from securities lending. Its performance for the I Fund was ahead of the International Index by 65 basis points, primarily due to fair value pricing.

Year-to-date, State Street’s performance for the F and C Funds was in line with the Funds’ respective indices. For the S Fund, State Street outperformed the Small Mid Cap Index by 17 basis points, primarily due to securities lending.

For the current month through Monday, July 25, all Funds are showing gains. The C Fund is ahead 4.87 percent, the S Fund has gained 6.44 percent, and the I Fund is up 2.34 percent. The F Fund has gained 1.53 percent and the G Fund has earned 0.21 percent.

L Fund participation continued to increase in June due in large part to automatic enrollment. Net Interfund transfers for June into the G Fund from the other funds were over \$4 billion as some participants changed their allocations likely as a result of the volatility in the markets. As usual, however, the vast majority of participants left their funds untouched.

Next, Mr. McCaffrey reviewed the quarterly proxy voting and class action settlement reports. An audit of BlackRock's proxy voting conducted by ISS found no exceptions to BlackRock's established guidelines during the first quarter of 2022. Likewise, an audit of State Street's proxy voting conducted by ISS found no exceptions to State Street's established guidelines during the first quarter of 2022.

In class action settlements, BlackRock began the first quarter with 75 open claims. During the quarter, the C Fund had seven claims opened. Seventeen claims were opened in the S Fund. Overall, seven claims were settled for a total of 3,257,108 dollars. Of these, three claims in the C Fund were settled for 3,001,423 dollars, and four claims in the S Fund were settled for 255,685 dollars. Two claims in the S Fund and one claim in the C Fund were rejected, bringing total claims closed during the quarter to ten. Additionally, residual payments from three previously closed S Fund claims yielded 1,115 dollars. Eighty-nine claims remained open at BlackRock at the end of the quarter.

State Street began the first quarter with three open claims, all in the S Fund. During the quarter, two more claims were opened in the S Fund. As no claims were settled or closed, five claims remained open for State Street at the end of the quarter.

b. Budget Review

Ms. Crowder provided the Third Quarter Budget Review. See "FY22 3rd Quarter Budget Review" (attached). Budget execution of 397.8 million dollars was in alignment with the Agency's spend plan projections. Of the 397.8 million dollars executed, 74 percent or 294.8 million dollars supported both the current and prior recordkeeping operations as the Agency transitioned to the new recordkeeping system and new recordkeeper.

Ms. Crowder provided an overview of the Agency's budget versus average assets. At the end of the third quarter, the plan had 755 billion dollars in average assets under management and the total approved plan budget for fiscal year 2022 was approximately 497 million dollars. The Agency measures its administrative expenses on a calendar year basis. At this time last year, the Agency estimated that for calendar year

2021 that the administrative expense ratio would be no higher than 6.8 basis points, but due to the market rate of return and the Agency's prudent use of budgetary resources, the actual gross and net administrative expense ratios were 5.3 and 4.3, respectively. The current calendar year 2022 projection for administrative expense ratio is 6.6 basis points.

c. Audit Status

Ms. Crowder provided the audit remediation and status update for the third quarter. See "Quarterly External Audit and Remediation Status" (attached). Over the past six years, there have been as many as twenty external audits in fiscal year 2019 and as few as seven in fiscal year 2020. There are nine external audits planned for fiscal year 2022.

The mid-year financial audit for calendar year 2022 will be performed by CliftonLarsonAllen (CLA). This audit is currently in its planning phase and will begin in early August. The fiscal year 2022 Federal Information Security Modernization Act (FISMA) audit is nearing completion and is the only audit currently ongoing. It is managed by the Agency's Chief Audit Executive, Barbara Holmes and is performed by the Williams Adley auditing firm. During the third quarter, five external audits were completed, bringing the total number of audits completed to seven out of the nine planned for the 2022 fiscal year. Ms. Crowder reminded the Board that CLA presented the year-end financial audit to the Board at the April meeting. Ms. Crowder briefly presented the other four audit reports finalized in the quarter, three related to the transition to the new recordkeeping vendor, none of which resulted in any recommendations from the auditors.

Ms. Crowder then provided an update on audit remediation status. The Agency began fiscal year 2022 with a goal to close 29 recommendations by the end of the third Quarter. Thus far, the Agency has closed 45 recommendations. The Agency is currently closing recommendations faster than the auditors are issuing new ones, reflecting the Agency's audit maturity. There are currently 80 open audit recommendations. They are being addressed and prioritized based on their associated risk rankings.

4. Internal Audit Update.

Barbara Holmes, Chief Audit Executive, provided an update on internal audits, and other internal audit activities. See "Internal Audit Update" (attached). Ms. Holmes began by summarizing the calendar year 2022 internal audit plan and the current stage of each audit.

The Office of Management and Budget (OMB) moved the reporting timeframe for the annual FISMA audit to the end of July from the end of the October. The Agency added a new internal audit assessing the decommissioning of legacy assets. There is an ongoing effort to review the shared drive file plans for the FRTIB

offices, which started in 2021 and is a precursor to the records management audit planned for 2023. The review is currently in progress with two offices completed. Ms. Holmes' team conducted an audit of the Multi-Asset Manager Program with a scope period of calendar year 2021, which resulted in no recommendations.

Ms. Holmes reviewed the status of internal audit findings. Since 2015, there have been 108 internal audit findings and 99 have been closed. Internal audit is also preparing for the remaining audits for the year, including a vendor management audit, and is reviewing remediation efforts by program offices on several Notices of Findings and Recommendations (NFRs).

5. Adjourn.

On a vote taken by Chair Gerber, the members closed the meeting at 10:38 a.m. for executive session.

At 11:26 a.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 Chair Gerber adjourned the meeting at 11:26 a.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics June 2022
2. June 2022 Performance Review – G, F, C, S, I, and L Funds
3. FY22 3rd Quarter Budget Review
4. Quarterly External Audit and Remediation Status
5. Internal Audit Update