



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 25, 2022

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 25, 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 teleconference. In attendance were Dana K. Bilyeu of Oregon, member; Leona M. Bridges of California, member; Stacie Olivares of California, 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 (by telephone); Vijay Desai, Chief Information Officer; and Thomas Brandt, Chief Risk Officer.

Welcome and Introductions.

Member Bilyeu called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:05 a.m. and welcomed everyone present to the meeting.

1. Approval of the Minutes of the September 27, 2022 Board Meeting.

Member Bilyeu entertained a motion for approval of the minutes of the September 27, 2022 Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on September 27, 2022, be approved.

2. Monthly Reports.

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

a. Participant Activity Report

Mr. Ramos reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics September 2022" (attached). He reported that call volume fell by over 40 percent between August and September, trending closer to normal TSP call averages. Uniformed Services participation rates rose to 84 percent, and matching rates

went up for both Federal Employees' Retirement System (FERS) and Blended Retirement System (BRS) populations. The number of Mutual Fund Window (MFW) fully funded accounts rose ten percent to 2,085. Loans and withdrawal processing in October remained elevated, although loan requests fell 15 percent and withdrawal requests fell about four percent month over month.

b. Legislative Report

Ms. Weaver began by noting that the House of Representatives and Senate will be back in session after the election and will work on funding the government through the end of September 2023. They will also work on approving the fiscal year 2023 Department of Defense authorization bill.

In response to a question from Member Bilyeu, Ms. Weaver stated that she suspects SECURE 2.0 will be added to the omnibus bill and will be effective January 1st. The Agency has contacted the applicable committees to explain the challenges of implementing the program changes required by SECURE 2.0 in such a short timeframe.

3. Quarterly Reports.

a. Investment Performance

First, Mr. McCaffrey reviewed the monthly investment performance report. See "September 2022 Investment Performance Review – G, F, C, S, I, and L Funds" (attached). For the month of September, Mr. McCaffrey noted that BlackRock's performance for the F, C, and S Funds was in line with the Funds' respective indices. BlackRock's performance for the I Fund was behind the International Index by four basis points, mainly due to fair value pricing. State Street's performance for the F and C Funds in September matched the Fixed Income Index and the Large Cap Index respectively. State Street's performance for the S Fund was five basis points ahead of the Small Midcap Index due to securities sampling.

In the markets, the Federal Reserve raised its target range for the federal funds rate by 75 basis points in September and many investors expect additional increases. As a result, the C, S, and I Funds posted significant losses. Treasury rates moved higher, contributing to the F Fund ending the month with a loss. All L Funds also posted losses.

BlackRock's year-to-date performance for the F fund exceeded the benchmark returns by 42 basis points. BlackRock's performance for the C Fund was ahead of the Large Cap Index by four basis points. For the S Fund, BlackRock outperformed the respective benchmark by 27 basis points, and BlackRock's performance for the I Fund was behind the International Index by 13 basis points, primarily due to fair value pricing.

State Street's year-to-date performance for the F Fund exceeded the Fixed Income Index by five basis points, due mainly to securities lending. State Street's C Fund performance matched the Large Cap Index. For the S Fund, State Street outperformed the Small Mid Cap Index by 24 basis points, primarily due to securities lending.

For the current month through October 24, the C Fund is up by 5.99 percent, the S Fund has gained 3.74 percent, and the I Fund is also up 3.76 percent. The F Fund had a loss of 2.55 percent, while the G Fund gained 0.26 percent.

Participation in the L Funds continued to climb, adding over 23,000 investors. Mr. McCaffrey attributes this growth largely to automatic enrollment of new participants, particularly from BRS.

Net interfund transfers of 3.668 billion dollars moved into the G fund and away from riskier investments during the month of September. Mr. McCaffrey noted that there was nothing alarming about the numbers, given the size of the TSP. He pointed out that the vast majority of participants seem to be sticking with their investment programs.

Next, Mr. McCaffrey reviewed the quarterly proxy voting and class action settlement reports. An audit of proxy voting found no exceptions to established guidelines during the second quarter of 2022 for both BlackRock and State Street.

For the second quarter class action report, BlackRock reported that it began the quarter with 89 open claims. Twenty-two claims were opened during the quarter, comprised of one each in the F and I Funds and 10 each in the C and S Funds. Overall, 13 claims were settled for about one million dollars, including 10 claims in the S Fund and three claims in the C Fund. One claim in the S Fund and three claims in the C Fund were closed due to administrator action, bringing the total closed claims for the quarter to 17. Residual payments for six previously closed claims paid out over 39 thousand dollars. Total settlement proceeds for the quarter were \$1,067,888. Across the four Funds, 94 claims remained open at the end of the quarter.

For State Street, there were five open claims in the S Fund at the start of the first quarter. However, two claims were closed due to administrator action. One claim was opened in the S fund and no claims were settled. State Street ended the quarter with four open claims.

b. Audit Status

Ms. Crowder provided an overview of the Agency's audit status. See "Quarterly External Audit and Remediation Status" (attached). She reported that there are 13 external audits planned for fiscal year (FY) 2023. External auditors completed nine audits by the end of FY 2022, the mid-year financial statements was the final audit completed during FY 2022. For these nine audits, the auditors closed eight prior-year recommendations and issued nine new recommendations. Ms. Crowder then discussed

the four categories of audits planned for the new fiscal year: financial audits performed by the financial auditor, CliftonLarsonAllen (CLA); the Government Accountability Office's (GAO) review of the TSP; the nine EBSA audits; and finally, the FY 2023 FISMA audit.

Ms. Crowder provided an update on audit remediation status, reporting that, in FY 2022 the Agency had established a goal of closing 29 audit findings. During the 4th Quarter the Agency closed an additional five audit findings, giving the FRTIB a total audit closures of 50 for the fiscal year. The Agency ended the year with 75 open recommendations. Ms. Crowder concluded her discussion by showing the maturity and improvement of audit closure rates between the Agency and the external auditors over time. There remain no critical recommendations and three remain at a high-risk rating. In response to a question from Member Bilyeu, Ms. Crowder and Ms. Tosini explained that about half of the 75 open recommendations are associated with systems or processes the Agency is decommissioning, and the Agency is working with the external auditors to remove those from the list of findings provided to the board, as no more work will be done to close them.

c. Budget Review

Ms. Crowder reported on the fourth quarter budget review for FY 2022. See "FRTIB FY 2022 4th Quarter Budget Update" (attached). The Agency executed approximately 96 percent of the annual fiscal year targeted spend plan of roughly 462 million dollars. This spend plan target is lower than the Agency's FY 2022 budget of 497 million dollars, because the Agency does not target to spend its entire budget. Against that budget, the Agency executed roughly 89 percent, or 444.2 million dollars. Out of the 444.2 million dollars executed, 77 percent supported recordkeeping and communications for the TSP.

Ms. Crowder reviewed the five-year annual net and gross administrative expense ratio. The gross administrative expense fee for 2021 was 5.3 basis points and with loan fees and forfeiture offsets the net expenses were 4.3 basis points. Mr. Deo mentioned that the calendar year 2022 update should be expected in the January 2023 Board meeting.

4. Investment Option Review.

Mike Jerue, Deputy Chief Investment Officer, introduced Russ Ivinjack and Raneen Jalajel from Aon Investments USA, Inc. (Aon), who discussed the investment option review that Aon conducted for the TSP. See "2022 Investment Option Review" and "Investment Option Review Memo to Executive Director" (attached). Mr. Ivinjack discussed the pertinent criteria for the TSP to consider when evaluating investment alternatives. Ms. Jalajel noted that Aon does not recommend any changes to the structure of the L Funds, however an expansion of the I Fund would provide symmetry and expand opportunities for diversification across the board. Ms. Jalajel concluded that the TSP is very well structured and serves the participants' best interest.

In response to a question from Member Bridges, Mr. Ivinjack mentioned

that a plan with the simplified structure of the TSP allows participants to feel secure in their investment choices. Members Bilyeu and Olivares expressed their appreciation to Aon, and Member Bilyeu commented that she would like to see a future review of the way the TSP handles the decumulation phase.

5. Mid-Year Financial Review.

Ms. Crowder introduced Rachel Mahmood from CliftonLarsonAllen (CLA), who discussed the mid-year financial statement review. See “CLA Mid-Year Review” (attached). The mid-year review covered the Thrift Savings Fund financial statements for the six months ending June 30, 2022. Ms. Mahmood stated that they were not aware of any material modifications needed for the financial statements prepared by management to be in conformity with generally accepted accounting principles. Ms. Mahmood did not express an opinion on internal controls. Ms. Mahmood then introduced David Scaffido, CLA Information Technology (IT) Audit Manager, who summarized prior recommendations. In response to a question from Member Bilyeu, Mr. Scaffido mentioned that CLA will follow up on the status of recommendations based on decommissioned systems in the CLA April report to the Board. Ms. Mahmood concluded by discussing CLA’s plan for the calendar year-end 2022 financial audit, noting that since the migration to Converge occurred in June, the audit will focus on both current and legacy systems. Mr. Scaffido explained that as part of the review, additional audit procedures will be rolled out to ensure information integrity. CLA will focus on high-risk areas like project planning, system testing, and user training.

6. Enterprise Risk Management Update.

Mr. Brandt presented the Enterprise Risk Management (ERM) update. See “Enterprise Risk Management Update 2022” (attached). Mr. Brandt reported that the Agency has 14 risks for calendar year 2022, and none are rated at the high level. There are eight risks rated medium-high, which require Risk Treatment Plans. Mr. Brandt highlighted updates relating to those medium-high risks: procurement and contract management, supply chain risk management, Converge steady state, Converge go-live, insider threat management, human capital management, and information security. In response to a question from Member Bilyeu regarding unconverted documents, Mr. Deo stated that all documents were sent to the new recordkeeper and no longer exist in the old system.

Mr. Brandt concluded that work continues on the new integrated risk management tool to support ERM, internal controls, audit, compliance, cyber risk, and business continuity processes.

7. Adjourn.

On a vote taken by the Chair, the members closed the meeting at 11:15 a.m. for executive session.

At 12:36 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 Chair Gerber adjourned the meeting at 12:36 p.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics September 2022
2. September 2022 Performance Review – G, F, C, S, I, and L Funds
3. Quarterly External Audit and Remediation Status
4. FRTIB FY 2022 4th Quarter Budget Update
5. a. Aon 2022 Investment Option Review
b. Investment Option Review Memo to Executive Director
6. CLA Mid-Year Review
7. Enterprise Risk Management Update 2022