MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 25, 2023

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 25, 2023, at 10:00 a.m., Eastern Daylight Time. The meeting was held at the Board's offices at 77 K 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 (by telephone); Susan Crowder, Chief Financial Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Participant Experience; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Information 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. and welcomed everyone present to the meeting.

1. Approval of the Minutes of the March 28, 2023, Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the March 28, 2023, Board meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board meeting held on March 28, 2023, be approved.

Mr. Deo then gave opening remarks and provided a summary of the agenda.

2. Monthly Reports.

a. Participant Activity Report

Mr. Courtney presented the monthly Participant Activity Report. See "Thrift Savings Fund Statistics March 2023" (attached). He reported that the Federal Employees Retirement System (FERS) participation rate reached 95.4 percent and more than 86 percent of FERS participants are receiving the full contribution match, both new Plan records. Additionally, more than 83 percent of Blended Retirement System (BRS) active-duty participants are receiving the full contribution match, tying a Plan record.

In response to a question from Member Bilyeu, Mr. Courtney noted the number of FERS participants receiving the full employer match is higher than in private sector plans.

b. Legislative Report

Ms. Weaver reported that the House of Representatives and the Senate were in recess the past two weeks. This week they are back in session and Speaker Kevin McCarthy has a bill addressing the debt ceiling, but nothing in the bill affects the TSP.

3. Quarterly Reports.

a. Budget Review

Ms. Crowder provided the quarterly budget update. See "FY2023 2nd Quarter Budget Review" (attached). The Agency budget for fiscal year (FY) 2023 is 481.4 million dollars. Second-quarter spending shows the Agency is in alignment with its budget projections by allocating 96 percent of the budget, or 368.6 million dollars, relative to the second quarter spend plan of 385.9 million dollars. The Agency executed 77 percent of the total FY 2023 budget through the second quarter, 81 percent of which it spent to support recordkeeping operations and communications as well as the continuing decommissioning of legacy systems.

Ms. Crowder reported that at the end of the second quarter, average assets under management increased to 753 billion dollars. Ms. Crowder also reported that the administrative expense ratios, calculated by calendar year (CY), ended CY 2022 with a gross administrative expense ratio of 6.8 basis points and a net administrative expense ratio of 5.8 basis points.

In response to a question from Chair Gerber, Ms. Crowder noted that the expense ratios are much lower compared to the private sector with projections that expense ratios will continue to decrease over time.

In response to a question from Member Bilyeu, Ms. Crowder provided that forfeitures should remain a factor and have been static over the last few years.

b. Audit Status

Ms. Crowder reviewed the quarterly external audit and remediation status. See "Quarterly External Audit - Remediation Status April 2023" (attached). Ms. Crowder reported that at the end of the second quarter for FY 2023, 12 of the 13 planned external audits were in progress.

Ms. Crowder explained that the 13 external audits include nine audits by the Department of Labor's Employee Benefits Security Administration (EBSA), one audit by the Government Accountability Office (GAO), two by CliftonLarsonAllen LLP (CLA), and one by Williams Adley.

Regarding remediation efforts, Ms. Crowder reported that the target for FY 2023 is to close 29 open recommendations. During the second quarter, the Agency closed one audit recommendation and received two additional closure packages at the end of the quarter that will be reflected in the third quarter review.

Ms. Crowder further provided that one audit performed by EBSA looks at prior open audit findings with the goal of giving the Board and EBSA a baseline for actual open and closed audits with the expectation of a significant drop in open audit findings. In response to a question from Member Bilyeu, Ms. Crowder noted this audit will evaluate the Agency's decommissioning efforts for the legacy system and transition to our new operating model to determine accurate audit closure findings.

c. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. See "March 2023 Investment Program Review" (attached). For the month of March, 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 exceeded the International Index by 69 basis points primarily due to fair value pricing. State Street's performance for the F, C, and S Funds in March was in line with the Funds' respective indices. State Street's performance for the I Fund exceeded the International Index by 38 basis points primarily due to fair value pricing.

During March, multiple failures among regional banks fueled market volatility and prompted both concerns about contagion and questions about future Federal Reserve actions. Although the Federal Reserve ultimately raised its target interest rate range, it noted that recent developments in the banking system could weigh on inflation. The C Fund rose, but the S Fund fell. The I Fund ended with a gain, helped in part by a weaker U.S. dollar. And lower interest rates helped the F Fund finish higher. All the L Funds posted gains.

Mr. McCaffrey also reported that BlackRock's year-to-date performance for the F Fund was ahead of the benchmark by 19 basis points primarily due to a difference between end-of-year pricing for the benchmark and the Fund. C Fund performance was flat to the benchmark. S Fund performance was ahead of the index by seven basis points, primarily due to securities lending. The I Fund's performance exceeded the benchmark by 12 basis points, primarily due to tax advantage.

Mr. McCaffrey reported that State Street's year-to-date performance for the F Fund was ahead of the Fixed Income Index by 19 basis points because of the end-of-year pricing difference. Both the C and S Fund performance were in line with the respective indices. The I Fund performance exceeded the International Index by 42 basis points, primarily due to fair value pricing.

Mr. McCaffrey reported that investment performance is mixed so far in April. Through Monday, April 27, the C Fund is ahead 0.75 percent. The S Fund is down 1.39 percent. The I Fund has gained 3.19 percent. The F Fund is ahead by 0.18 percent. The G Fund has earned 0.24 percent.

Mr. McCaffrey shared that L Fund participation continued to grow in March by approximately 20,000 participants. This development was attributable to the L2055, L2060, and L2065 Funds, reflecting the impact of automatic enrollment of new participants.

Interfund transfers remained at a relatively low level. Approximately 1.5 percent of participants moved money in March, below the historical median of two percent. Mr. McCaffrey further provided that year-to-date through March 31, approximately 3.9 percent of participants have moved money between funds, which means 96.1 percent did not move anything.

Regarding the quarterly updates, Mr. McCaffrey began with proxy voting. An Institutional Shareholder Services (ISS) audit of BlackRock's proxy found no exceptions to its established guidelines during the fourth quarter of 2022. Likewise, an ISS audit of State Street's proxy voting found no exceptions to the firm's established guidelines for that same period.

Mr. McCaffrey next discussed class action settlements for the fourth quarter of 2022. For BlackRock, the quarter began with 93 open claims. During the quarter, 30 new claims were opened with eight in the C Fund and 22 in the S Fund. Seven claims were settled for a total of 8,090,740 dollars. Two of the claims settled were in the C Fund for a total of 108,614 dollars. Five claims in the S Fund were settled for a total of 7,982,126 dollars. Four claims in the C Fund and two in the S Fund were closed due to administrator action, bringing the total number of claims closed during the quarter to 13. Additionally, residual payments from two previously closed claims in the C Fund and three previously closed claims in the S Fund yielded a total of 39,388 dollars and 15,151 dollars, respectively. The total settlement proceeds for the quarter were 8,145,278 dollars, and 110 claims remained open at the end of the quarter.

For State Street, four claims were open in the S Fund at the start of the quarter. Five additional claims were opened in the S Fund and one claim in the S Fund was settled for a total of 52,970 dollars. Thus, eight claims remain open at the end of the quarter.

4. <u>Office of Investments Annual Report</u>.

Mr. McCaffrey presented the annual review of the Office of Investments (OI). <u>See</u> "Office of Investments Annual Review" (attached). Mr. McCaffrey stated the function of OI is to develop and implement investment policy and provide subject matter expertise for TSP investment programs. The OI organizational structure includes six team members who leverage strong partnerships with other Agency program offices.

Mr. McCaffrey provided an overview of six key activities for OI: (1) develop investment policies and procedures; (2) review L Fund asset allocation strategies; (3) oversee investment management services, including securities lending; (4) ensure funds are invested in accordance with law and applicable policies; and (5) provide subject matter expertise to the Agency and to the Board and (6) assistance to other Offices whenever needed. Mr. McCaffrey then provided a summary of TSP investment history, which discussed results of these key activities.

Mr. McCaffrey then discussed OI's accomplishments over the last three years. OI has developed and implemented a long-term transition plan to improve upon the age-appropriate asset allocations for the L Funds, in addition to creating new five-year interval L Funds to better meet participants' needs. OI awarded new asset manager contracts in 2020 and successfully transferred a portion of the assets from BlackRock to State Street.

OI's work with the asset managers on the securities lending program has added value on top of the performance of well-managed index strategies. Five new investment consultant contracts have proven valuable to OI's work, including last year's studies of investment options and best practices for Board review of investment policy. OI has also automated much of its regular performance monitoring. OI supports regular audits of TSP's external investment managers for compliance with their own policies and procedures, as well as laws and regulations, and to ensure they have proper controls in place.

In response to a question from Member Bridges, Mr. McCaffrey acknowledged that five investment consultants are sufficient to support OI's needs in the next five to ten years. Mr. Deo noted the increase from two investment consultants to five for this purpose.

Next, Mr. McCaffrey provided more detail on OI's L Funds work. He noted that each L Fund follows a strategic plan called a glidepath that reduces risk over time toward a terminal point where the asset allocations are intended to be permanently set, with a noted transition exception. Over the last few years, OI was driven to transform the L Funds by several factors including: (1) ten-year increments were not granular enough to meet participant needs and not in line with industry standards; (2) BRS would every year bring on many thousands of new recruits who would be only at the beginning of their retirement savings programs; (3) recent data showed that median withdrawal of funds by participants starts at age 63 instead of age 62; and (4) due to increased recognition that retirement assets need to cover a very significant period of years after the retirement date.

To account for these factors, OI has implemented the following changes. They shifted the terminal point of the glidepath to age 63 from age 62 and initiated a ten-year transition of stock allocations in the L Income Fund from 20 percent to 30 percent. The Agency accounted for new participants as young as 17 years old by creating a target of 99 percent equity for the new glidepath, and by creating a L 2065 fund in addition to the L 2060 Fund and L 2055 Fund. Mr. McCaffrey noted the Agency created a transition schedule for the new asset allocation baseline to minimize disruption for current participants in L Funds, to ensure proper time for communications, and to reduce possibilities for mistiming the planned increase in stock allocations.

Independent of this work, the Agency changed the default TSP contribution from three to five percent. Overall, these changes have put participants in a better position to generate favorable financial outcomes at retirement. Mr. McCaffrey noted that over half of all accounts have some assets in the L Funds, and over one-third of participants have 100 percent of their assets in the L Funds.

Mr. McCaffrey next highlighted OI's success in fulfilling the Board's mandate to mitigate organizational concentration risk by moving from one asset manager to two in 2020. He also explained that the five investment consultants supporting OI are part of blanket purchase agreements and only paid for work on projects they are selected to perform. Mr. McCaffrey provided examples of both recurring and ad hoc work the investment consultants perform for OI.

Mr. McCaffrey shared that in the near term, OI will focus on quality and continuous improvement including investment management supervision, building upon prior automation work, contingency planning, and fulfilling OI's role as the Agency's trusted source for investment knowledge. In 2025, OI plans to retire the L2025 Fund and implement the L2070 Fund. Additionally, they have established a policy to review the L Fund glidepath at least once every three years and plan to study the current benchmark indices for the F, C, S, and I Funds this year. Mr. McCaffrey noted that all of this is possible because of the experience and dedication of the OI staff.

In response to questions from Chair Gerber and Member Bridges, Mr. McCaffrey confirmed that OI has sufficient resources to handle its responsibilities and clarified that those responsibilities do not include the Mutual Fund Window (MFW), which is not managed by the Agency. Mr. Deo and Mr. Vashee explained that the MFW falls under the recordkeeper contract and intends to provide a broad set of investment options. For the small subset of participants who make that choice, the MFW serves as a conduit to investments under the responsibility of other firms and boards. The Agency does not select or screen the funds in the MFW. The funds selected by participants in the MFW provide disclosures, and participants perform their own research and determine what funds to buy with a wide variety of strategies, goals, objectives, and managers afforded to them.

5. Enterprise Risk Management Update.

Mr. Brandt provided an update on Enterprise Risk Management (ERM). See "Enterprise Risk Management Update" (attached). After describing the annual ERM program cycle, Mr. Brandt provided a close-out for the CY 2022 risk treatment plans. The Agency completed the insider threat management risk treatment plan actions, and the risk score dropped from medium-high to medium. For cyber security, the Agency accomplished the risk treatment plan actions, but the risk score remains at medium-high due to the continually evolving cyber threat landscape. The Agency also accomplished the risk treatment plan actions for supply chain risk management; the risk remains medium-high due to the continued build out of supply chain risk management and increased reliance on vendors. The Agency accomplished the risk treatment plan actions for human capital management, dropping the risk score from medium-high to medium-low. For TSP fraud, the risk treatment plan required reevaluation due to continued changes to the Agency's operating model in CY 2022, and the updated version is included in the CY 2023 enterprise risk profile. For both procurement and contract management, the Agency accomplished the CY 2022 risk treatment plan actions, but both risk scores remain medium-high.

Next, Mr. Brandt provided an overview of the CY 2023 enterprise risks. ERM's risk profile for CY 2023 is composed of 12 risks, 11 of which are continuing from CY 2022. The Agency added one new risk: reputational risk of TSP operations and customer experience. Of the twelve enterprise risks, five are rated medium-high, five are rated medium, and two are rated medium-low. Mr. Brandt will report to the Board on all risks rated medium-high or higher.

In response to questions from Chair Gerber, Mr. Brandt confirmed these ratings, historically, fluctuate over time. Additionally, Mr. Brandt explained that the Agency looks at supply chain risk broadly, including the specific vendor, the supply chain, and the third parties with whom the Agency interacts. In response to a question from Member Bilyeu regarding the decision to score the new risk as medium-high, Mr. Brandt committed to providing the Board with that risk treatment plan as it is developed.

6. Adjourn.

On a vote taken by the Chair, the members closed the meeting at 10:58 a.m. to enter into executive session.

At 1:07 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 1:07 p.m.

MOTION: That this meeting be adjourned.

STEFANIE GEORGE Digitally signed by STEFANIE GEORGE
Date: 2023.07.03 11:51:27 -04'00'

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics March 2023
2. FY2023 2nd Quarter Budget Review
3. Quarterly External Audit - Remediation Status March 2023
4. March 2023 Investment Program Review
5. Office of Investments Annual Review
6. Enterprise Risk Management Update