FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002

THRIFT SAVINGS PLAN

MINUTES OF THE MEETING OF THE BOARD MEMBERS

August 22, 2023

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on August 22, 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 (by telephone); 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, Deputy Executive Director, and Acting Chief Financial Officer; Kimberly A. Weaver, Director, Office of External Affairs; Gisile Goethe, Director, Office of Resource Management; Sean McCaffrey, Chief Investment Officer; Tanner Nohe, Acting Director, Office of Participant Experience; Vijay Desai, Chief Information Officer; and Thomas Brandt, Chief Risk Officer.

Welcome.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:00 a.m.

1. Approval of the Minutes of the July 25, 2023, Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the July 25, 2023, Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on July 25, 2023, be approved.

2. Monthly Reports.

a. Participant Activity Report

Mr. Nohe reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics July 2023" (attached). He reported that between June and July of 2023, the number of participant interactions with AVA (TSP virtual assistant) and live chats with TSP representatives online each rose by 14 percent, while the number of TSP app downloads doubled. This increase is likely due to the release of quarterly statements in early July and the Thrift Savings Planner email in late July. Mr. Nohe also noted that the overall participant satisfaction for their interactions with the TSP rose to 89.43 percent.

b. Investment Review

Mr. McCaffrey presented the Investment Review, covering monthly investment performance for the managers relative to the benchmarks. See "July 2023 Investment Program Review" (attached). For the month of July, BlackRock's performance for the F, C, and S Funds was in line with the Funds' respective indices. Its performance for the I Fund lagged the International Index by 45 basis points, primarily due to fair value pricing. State Street's July performance for the F, C, and S Funds also matched the respective indices. Its I Fund performance underperformed the International Index by 28 basis points, primarily due to fair value pricing.

Mr. McCaffrey reported that investors' bullish sentiment for stocks continued into July, as the U.S. economy showed stronger than expected growth, lower than expected inflation, and healthy corporate earnings. The Federal Reserve raised its target interest rate range by 25 basis points, reiterating its commitment to maintaining price stability. The C and S Funds posted gains, and the I Fund rose, propelled in part by a weaker U.S. dollar. Interest rates edged higher, contributing to a slight loss in the F Fund. All L Funds finished higher.

Mr. McCaffrey also reported that BlackRock's year-to-date performance for the F Fund was ahead of the Fixed Income Index by 19 basis points due primarily to a difference in the timing of year-end pricing for the index versus the manager's pricing. The C Fund matched the Large Cap Index. The S Fund outperformed the Small Mid Cap Index by 13 basis points primarily due to securities lending. The I Fund performance was in line with the International Index.

Addressing State Street's year-to-date performance, the F Fund was ahead of the Fixed Income Index by 19 basis points primarily due to the same year-end pricing differences. C Fund performance matched the Large Cap Index. The S Fund performance exceeded the Small Mid Cap Index by six basis points primarily due to securities lending. Performance for the I Fund was ahead of the International Index by 37 basis points, primarily due to fair value pricing and tax advantage.

Mr. McCaffrey then turned to the month-to-date performance, noting that the C Fund has lost 4.01 percent, the S Fund has lost 6.99 percent, and the I Fund is lagging by 5.83 percent. Addressing the condition of the Bond Market, Mr. McCaffrey noted that the interest rates continued to climb, with the F Fund suffering a loss of 2.32 percent, and the G Fund earning 0.24 percent.

Mr. McCaffrey also indicated that L Fund participation grew by 25,000 in July, mainly due to automatic enrollment. He noted that the Five-Year L Funds implemented by the Office of Investments in 2020 now have three full years of performance. For interfund transfers (IFT), the G Fund experienced net outflows and the

C, I, and L Funds received the bulk of the inflows, reflecting the month's positive tone in the equity markets. The IFTs represented two percent of participants moving assets between funds, which is in line with the long-term median.

c. Legislative Report

Ms. Weaver reported that Congress has been out of session for August, with the House of Representatives returning September 12, 2023, and the Senate returning on September 5, 2023. After their return, the Congress will have three weeks to complete a funding package for the government by October 1. Ms. Weaver assured the Board that the Office of Participant Experience has a plan to assist TSP participants in the event that a funding lapse occurs.

3. Quarterly Metrics Report.

Mr. Dennis McNulty, Strategic Performance Branch Chief in the Office of Planning and Risk, reported on key performance indicator results for the third quarter of Fiscal Year 2023 (FY23). See "FY23 Q3 Metrics Report" (attached). Discussing Strategic Goal B, Mr. McNulty indicated that the 90 percent goal of participant satisfaction across five communication channels has not been met. However, the rate of satisfaction continued to increase, and the recordkeeper has created action plans incorporating participant feedback and data to improve satisfaction metrics further.

For Strategic Goal C, Mr. McNulty indicated that on May 25, BlackRock had an issue uploading a TSP file into their system, and as a result, the Agency received a confirmation email for the S, C, and I Funds late. The Office of the Chief Financial Officer submitted the order manually, following the appropriate contingency plan, and the investments were not impacted. The issue has not recurred since.

4. Office of External Affairs Annual Review.

Ms. Weaver provided the annual presentation on the Office of External Affairs (OEA). See "Office of External Affairs Annual Review" (attached). OEA is comprised of Ms. Weaver as the Director, a Congressional Affairs Analyst and a Congressional Inquiries Analyst. OEA develops and manages the external communication strategies to the Employee Thrift Advisory Council (ETAC), media, other federal agencies, and Congress. OEA anchors its analysis of legislative proposals on whether the bills are in the sole interest of TSP participants and beneficiaries.

ETAC is made up of 16 members representing federal and postal unions, management associations, and the Uniformed Services. ETAC meets with the Executive Director once a year, as well as jointly with the Board annually. ETAC's role is to advise the Board and the Executive Director on investment policy and the operation of the TSP, while FRTIB shares with ETAC information on upcoming TSP changes. In response to a question from Chair Gerber, Ms. Weaver stated that communication with ETAC was strong despite the recent leadership transitions at ETAC. In response to a question from Member Olivares, Ms. Weaver indicated that ETAC has given overwhelmingly positive feedback on the TSP investments and its ease-of-use design.

Discussing congressional oversight, Ms. Weaver indicated that while Congress has unfettered oversight through the Government Accountability Office, Congressional Budget Office, and Congressional Research Service, FRTIB's budgetary independence from Congress provides it with a welcome level of predictability and flexibility in Agency operations.

Two Senate committees oversee FRTIB's operations: the Senate Committee on Homeland Security and Governmental Affairs and the Subcommittee on Government Operations and Border Management. The FRTIB is also under the oversight of the House of Representatives' House Committee on Oversight and Accountability as well as the Subcommittee on Government Operations and the Federal Workforce. In response to a question from Member Bridges, Ms. Weaver stated that her communication with these is more frequent than once a month, and includes sending Board meeting minutes and information about pending legislation. In response to a question from Chair Gerber, Ms. Weaver indicated that there is no specific office or committee that is more concerned with FRTIB than others, reiterating that OEA has cultivated strong working relationships with the congressional offices that oversee the Agency.

Ms. Weaver discussed past legislative initiatives of FRTIB OEA, including changing the default investment fund from the G Fund to an age-appropriate L Fund, creating the Blended Retirement System, adding TSP withdrawal options, and changing the CARES Act to ensure that withdrawal provisions accommodated FERSA withdrawal language.

Ms. Weaver touched on the types of legislation monitored by OEA, including bills that would add or restrict TSP Funds, affect FERS defined benefits, make pension law changes affecting 401(k) and TSP, as well as bills that affect all federal agencies. She also provided examples of proposed changes to the TSP over the years that OEA has opposed successfully.

Turning her attention to the current legislation that OEA tracks, Ms. Weaver stated that there are 25 total pieces of legislation that are of interest, including five regarding the I Fund or the Mutual Fund Window and focusing on investments in China or ESG criteria. One of the 25 redefines the fiduciary responsibility of Board members. Six seek to create ways for Members of Congress to opt out of the defined benefit but remain in the TSP, which current law does not allow. The remainder are bills that mention the TSP but do not affect the Plan directly. Ms. Weaver noted that historically the number of bills OEA tracks has remained steady.

In response to a question from Chair Gerber, Ms. Weaver indicated that despite the large volume of work and responsibilities, OEA has enough resources and staff to carry out its duties effectively.

5. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, provided the internal audit update. See “Internal Audit Update” (attached). The Agency has completed the TSP fraud risk oversight audit and the annual Federal Information Security Modernization Act (FISMA) audit reports for 2022 and 2023. The E-Travel audit is about 75 percent complete, and the Agency has started audits on interagency agreements and monitoring of the Converge contract.

Ms. Holmes presented the TSP fraud risk oversight audit findings. The objective of the audit was to assess FRTIB’s monitoring controls over the TSP Fraud Risk process conducted by Accenture Federal Services (AFS) from June 1, 2022 to July 21, 2023. The audit resulted in two Notices of Findings and Recommendations (NFRs), both rated high. First, AFS has not provided sufficient access to the surveillance data for TSP Fraud cases processed by AFS. Second, FRTIB and AFS lack a formal process to address fraud reimbursement cases in situations where either party disagrees with the outcome of the fraud reimbursement case determination.

Ms. Holmes next reported that the results of the Office of the Chief Financial Officer (OCFO) shared drive review, which determines compliance with their file plan, were consistent with reviews of other offices. The Internal Audit team provided observations to assist OCFO in their organization of digital files.

Ms. Holmes also reported that she has started developing the Internal Audit Plans for 2024 and 2025. The 2024 plan will include an audit of prior year internal audit findings to update the status of those findings from 2020 forward.

6. Annual Financial Audit.

Mr. Eric Twyman, Deputy Chief Financial Officer, introduced two representatives from CliftonLarsonAllen (CLA): Michele Chalmers, Principal on the Engagement, and Rachel Mahmood, Audit Manager, to discuss the annual financial statement audit. See “CLA 2022 Audit Results” (attached). Ms. Chalmers indicated that while the usual timeframe for audit presentation is April, this year’s results were delayed due to the change of recordkeeping system in 2022, transition of data between the two systems, and having to test one half of the year on each recordkeeping system. Despite these delays, Ms. Chalmers stated that CLA has issued an unmodified “clean” opinion on the financial statements. There were no material weaknesses or significant deficiencies reported in the internal control letter.

Ms. Mahmood presented four low-level issues that CLA identified in its audit: AFS reporting Issues; participant notifications unavailability; Savantage system being decommissioned and disposed of prior to the December 31, 2022 audit; and Bank of New York Statements of Mutual Fund Window not including the Plan’s name. Ms. Chalmers continued by reporting that there were no changes in the scope of the audit testing or in accounting policies. CLA did not have to consult with any other accountants, and there were no significant disclosures.

In response to a question from Member Olivares, Ms. Chalmers stated that the only area where the auditors had an issue with obtaining the required documentation and data was a result of the Savantage system's decommission. However, this was not a cause for concern as the auditors performed significant testing through alternative procedures to compensate for not having the usual data.

Ms. Chalmers concluded by reporting that CLA will conduct the interim review of FRTIB financial statements spanning the first six months of 2023 in September. CLA expects to provide a draft report to management in early October and present the results to the Board during the November meeting.

7. FY22 Federal Information Security Modernization Act (FISMA) Report.

Ms. Holmes introduced Tony Wang and Edwen Delcid, auditors from Williams Adley, to present their FISMA audit for FY22. See "FY22 FISMA Audit Report" (attached). Mr. Delcid explained that the FISMA audit evaluated the design and implementation of entity wide and system specific controls with a particular focus on two of FRTIB's information systems: Financial and Reconciliation Services (FRS) and Converge. They chose these systems because the Agency identified them as high value assets that were critical to achieving the Agency's mission. Additionally, these systems represented the transition from the legacy environment to Converge, which is supported by a number of cloud systems. As Converge was not yet fully implemented at the conclusion of the FY22 audit, the scope was limited to the controls and processes that were in place during the period of assessment.

Mr. Delcid reported that Williams Adley used FY22 Inspector General Reporting Metrics to gauge the maturity of Agency practices in connection with the nine FISMA metric domains that are organized around the five information security functions outlined in the NIST Cybersecurity Framework. The audit utilized the five-point model to determine the maturity of each metric question, domain and function. Level one indicates that controls and processes are performed in an ad hoc manner; level four indicates effective controls and processes; and level five indicates that an agency has introduced automation and other tools for continuously improving the environment. For the FY22 reporting period, the auditors used a simple majority to rate a domain's or function's maturity, where the most frequent level served as the domain's rating.

Mr. Delcid reported that FRTIB's information security program and practices were effective, as all five security functions and all nine corresponding domains were rated at a level four maturity level. Compared with the previous year, seven of the nine domains maintained their maturity rating of level four, while the two domains of Supply Chain Risk Management and Contingency Planning increased to level four. As a result of the improvement of those two domains, the auditors closed three previously issued recommendations.

Williams Adley identified three conditions relating to risk management, configuration management, and information security continuous monitoring but deemed none to be high-risk and issued no new recommendations. Four prior-year recommendations remained open, but those will be covered in future FISMA audits, and none had a material impact on the Agency's ability to manage its information security risks.

8. FY23 FISMA Report.

Mr. Delcid presented the FY23 FISMA audit report. See "FY23 FISMA Audit Report" (attached). While the audit objectives remained consistent with FY22, the FY23 audit focused on the design and implementation of the controls supporting Converge. Williams Adley continued to use the Inspector General Reporting Metrics, but new guidance for FY23 added supplemental metrics and changed the scoring mechanism from simple majority to calculated average. Under this new methodology, the average score for the core metrics is the basis for the domain maturity, and the supplemental metrics average score is an additional data point. The weight given to the supplemental metric's score in determining the overall score is based on the auditor's judgment of the associated risk.

In response to a question from Member Olivares, Mr. Delcid clarified that the new score is not a weighted average. Mr. Wang explained that the supplemental metric ratings serve as tiebreakers to allow for flexibility in making scoring determinations. The new method allows the auditors to determine the score based on how a metric impacts the agency's ability to manage security risk as opposed to making a purely mathematical calculation.

Mr. Delcid reported that, despite the transition to a new system and collaborating with new vendors, the Agency was able to implement a program deemed effective by FISMA standards. With the introduction of new technology, subject matter experts and processes, the Agency improved three of the FISMA domains to level five, with the remainder rated at level four. Williams Adley closed three out of four open recommendations. The one remaining open recommendation is related to a supplemental metric that was not evaluated in FY23 but will be evaluated in the FY24 audit. The auditors identified one minor issue in the Agency's contingency planning activities but determined that the Agency is already mitigating it and thus issued no new recommendations for FY23. Mr. Delcid encouraged the Agency to continue to apply that foresight towards information security to adapt as the FISMA landscape evolves and new regulatory requirements are issued.

Mr. Patrick Bevill, Chief Information Security Officer, provided the Agency's response to the audit reports. See "FRTIB FISMA Audit Management Response" (attached). Mr. Bevill emphasized that the work related to closing the one remaining open recommendation has been completed but will not be tested until FY24.

9. FY24 Budget Proposal and Approval.

Mr. Twyman began the budget presentation by reviewing the Agency's work in FY23. See "FY 2024 Budget Proposal" (attached). The Agency's FY23 priorities were to develop and implement a comprehensive vendor management framework, enhance and improve its new operating model, support agency employees throughout the transition to the new operating model, and attain a steady state operation as a high-performing agency. For FY23, the Board approved a budget of 481.4 million dollars, 67 percent or 323.3 million dollars of which went towards recordkeeping. During FY23, FRTIB answered 10 million inquiries, handled 80,000 paper forms, as well as managed over 761 billion dollars of assets for 6.8 million participants.

Mr. Twyman highlighted some FRTIB achievements in FY22 and FY23. FY22 saw the transition to a new recordkeeper and a new internal financial system; implementation of the Department of Justice security services; and award of the Agency IT Services end user contract. During FY23, FRTIB completed transferring a portion of TSP funds to a second asset manager and achieved cost savings by terminating its leases on two office floors.

Presenting the historical budget overview, Mr. Twyman stated that from 2016 through 2019, FRTIB's average annual budget increase was around 17 percent, peaking in 2021 as the Agency awarded the new recordkeeping system while maintaining the legacy system during transition. With the transition complete, the Agency expects notably more stable budgets going forward, which is positive for the expense ratio. Mr. Twyman emphasized that FRTIB spends participant money wisely and participants are only charged what FRTIB spends. FRTIB has 233 employees as of July 2023. In response to a question from Chair Gerber, Mr. Deo indicated that the difference between authorized staffing levels and employees on board is consistent with naturally occurring turnover as employees retire or change jobs, and it has remained stable over time.

Mr. Deo then presented the proposed budget for FY24. Agency goals for FY24 are to emphasize new TSP tools and enhancements, understand and respond to participant needs and expectations, determine FRTIB workspace for the next decade, and focus on quality and continuous improvement of the FRTIB. With those goals in mind, the Agency is asking for 476.1 million dollars for FY24 and expects to ask for 479.4 million dollars for FY25. This year's request is a decrease of 1.1 percent from last year.

Mr. Deo showed the board a projection of assets, budget, and number of participants going forward as well as for the last three years as historical context. He noted that average assets are based on the calendar year, whereas the budget is based on the fiscal year, and much can change that could influence projections. He next described projections for the budget-to-assets and budget-to-participants ratios. The budget-to-asset ratio is projected at 5.9 gross basis points in FY24, declining steadily to

5.1 gross basis points in FY28 due to a stable budget and projected increase in assets. The projected budget-to-participants ratio is stable, starting at 71 dollars for FY23, dropping to 68 dollars for FY24 and stabilizing at 66 dollars after that.

In response to questions from Member Olivares, Mr. Deo informed the Board that the budget-to-assets ratio from 2015 to 2020 varied, with the lowest being four basis points and the highest being 6.7. The budget-to-participant ratio varied similarly. Mr. Deo confirmed that the Agency projects the budget-to-asset ratio will be declining moving forward. In response to a question from Member Bridges, Mr. Deo stated that despite increased costs related to cybersecurity concerns, he believes the budget asks for enough to cover them.

Chair Gerber entertained a motion for approval of the FY24 Budget Proposal for 476.1 million dollars. The following motion was made, seconded, and adopted without objection:

MOTION: That the FY24 budget proposal be approved.

10. Adjourn.

Whereupon there being no further business, the following motion was made, seconded, and adopted without objection and Chair Gerber closed the meeting at 11:34 a.m. to enter into executive session.

At 5:15 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 5:15 p.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics July 2023
2. July 2023 Investment Program Review
3. FY23 Q3 Metrics Report
4. Office of External Affairs Annual Review
5. Internal Audit Update
6. CLA 2022 Audit Results
7. FY22 FISMA Audit Report
8. FY23 FISMA Audit Report
9. FRTIB FISMA Audit Management Response
10. FY 2024 Budget Proposal