



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 25, 2023

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 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 (by telephone); Ravindra Deo, Executive Director; Stefanie George, Acting General Counsel and Acting Secretary; Suzanne Tosini, Chief Operating Officer, Deputy Executive Director, and Acting Chief Financial Officer; Kimberly A. Weaver, Director, Office of External Affairs; James Courtney, Director, Office of Participant Experience; Sean McCaffrey, Chief Investment Officer; and Vijay Desai, Chief Information 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 June 27, 2023, Board Meeting Minutes.

Chair Gerber entertained a motion for approval of the minutes of the June 27, 2023, Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on June 27, 2023, be approved.

2. Monthly Reports.

a. Participant Activity Report

Mr. Courtney reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics June 2023" (attached). He reported that although a relatively small number of participants purchased an annuity in the first half of this year, the dollar amount used to purchase annuities is approaching the total amount put towards annuities in all of 2022. This increase is likely due to the increased interest rate index over the past 12 to 18 months. Hardship withdrawals for May and June were the highest since August of 2022. The increase could be seasonal, given similar elevations over the past three summers. Private sector plans have also seen increases in hardship withdrawals this year.

In response to a question from Member Bilyeu, Mr. Courtney stated that the Agency is about to begin the process to recompete its annuity provider contract, and the Agency will investigate ways to make annuities more attractive to participants.

b. Legislative Report

Ms. Weaver began by noting that the House of Representatives passed its version of the Fiscal Year 2024 National Defense Authorization Act with no provisions affecting the TSP. She expects the Senate will complete its version of the bill this week before going out of session. The House will go out of session July 28 and return September 12, 2023, and the Senate will also go out of session July 28 and return on September 5, 2023. This means the House and Senate will have 12 and 17 days in session, respectively, in September to pass appropriations bills for FY24.

3. Quarterly Reports.

a. Investment Review

Mr. McCaffrey presented the Investment Review, covering monthly investment performance for the managers relative to the benchmarks. See “June 2023 Investment Program Review” (attached).

For the month of June, BlackRock’s performance for the F, C, and S Funds matched the performance of the Funds’ indices. Performance for the I Fund fell behind the International Index by five basis points, primarily due to fair value pricing.

State Street’s June performance for the F, C, and S Funds also matched the indices. Its I Fund performance exceeded the International Index by 29 basis points, primarily due to fair value pricing.

Investor sentiment for stocks was more bullish in June, supported in part by the debt impasse resolution coupled with some recent economic data. The C and S Funds rose significantly. The I Fund also finished higher, propelled in part by a weak U.S. dollar. Higher market interest rates contributed to a loss for the F Fund, and all L Funds finished higher for the month.

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. Its performance for the C Fund matched the Large Cap Index. The S Fund outperformed the Small Mid Cap Index by ten basis points primarily due to securities lending. BlackRock’s I Fund performance exceeded the International Index by 47 basis points primarily due to tax advantage.

For 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 end-of-year pricing

difference mentioned previously. C Fund performance matched the Large Cap Index. Their S Fund performance exceeded the Small Mid Cap Index by three basis points primarily due to securities lending. Performance for the I Fund was ahead of the International Index by 66 basis points, primarily due to tax advantage and fair value pricing.

Mr. McCaffrey reported that equity markets were positive in July so far. Through the close on Monday, July 24, 2023, the C Fund is ahead 2.41 percent, the S Fund is ahead 4.07 percent, and the I Fund has gained 1.87 percent. In fixed income, the F Fund is ahead by 0.09 percent and the G Fund has earned 0.26 percent.

L Fund participation continues to grow as expected, primarily due to automatic enrollment. During June, the number of participants holding at least one L Fund grew by approximately 30,000. In addition, approximately 2.1 percent of participants moved assets between funds. Assets primarily flowed out of the G Fund and into the C Fund, which is likely because of the significant rise in stock values both for the month and year-to-date.

An audit of BlackRock's proxy voting found no exceptions to established guidelines during the first quarter of 2023. Similarly, an audit of State Street's proxy voting found no exceptions to State Street's established guidelines during the same quarter.

Regarding class actions, Mr. McCaffrey reported that BlackRock began the first quarter with 110 open class action claims. Thirteen new claims were opened, and eight claims were closed due to administrator action: three in the C Fund, four in the S Fund, and one in the I Fund. In the S Fund, 14 claims were settled for a total of almost 3,500,000 dollars. At the end of the quarter, 101 claims remained open.

State Street began the first quarter with eight open claims. One claim was opened in the C Fund and three claims were opened in the S Fund. Two claims in the S Fund were closed due to administrator action, and 10 claims remained open at the end of the quarter.

In response to a question from Member Bilyeu, Mr. Deo stated that the Agency will investigate whether there are patterns to the participants who are opting out of automatic enrollments.

b. Budget Review

Ms. Tosini provided the quarterly budget update. See "FY 2023 3rd Quarter Budget Review" (attached). The Agency has executed 95 percent of its third quarter targeted budget and 82 percent of its annual budget for the year-to-date. This is consistent with past years. The majority of the Agency budget is directly participant-facing, which includes recordkeeping, communications, and most of the personnel expenses. Ms. Tosini then showed the Board how the approved budget compares with

average assets over several fiscal years, as well as the gross and net administrative expenses for calendar years 2018 through 2022.

c. Audit Status

Ms. Tosini provided the quarterly audit status update. See “Quarterly External Audit and Remediation Status July 2023” (attached). The Agency has 14 external audits either completed, underway, or planned for 2023. The Agency has completed two audits so far; however, most of the audits in progress are nearing completion. Over the past quarter, the Agency closed 47 audit findings. Three fourths of these closures resulted from finishing the decommissioning process after moving TSP recordkeeping operations to Converge.

The Agency manages audit findings and closures in two tracks: the official track, which is based on the auditors’ determination, and the operational track, which is the actions the Agency has taken to close findings and its progress related to that effort. The numbers for the two tracks diverge primarily due to the gap between when the Agency takes actions to close findings and when the auditors next evaluate them. Ms. Tosini expects both the open and closed numbers in Fiscal Year 2023 to increase. Finally, she highlighted the 91 percent decrease in open audit findings over the past six years, resulting from considerable effort by Agency staff.

4. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, provided the internal audit update. See “Internal Audit Update” (attached). The Agency has completed the death benefit oversight audit and the insider threat audit. The TSP fraud risk oversight audit is about 85 percent complete. The Agency is currently engaged in the fieldwork for the E-Travel audit. The annual Federal Information Security Modernization Act (FISMA) audit is complete, and the Agency has received a draft report from the external auditors. The final scores for the FISMA audit will be released by the end of this week and the Board will be briefed on the 2022 and 2023 FISMA results at the next Board meeting.

Last year the Agency conducted an audit of its Insider Threat Program. This year’s audit focused on the effectiveness of controls established last year. The scope was calendar year 2022. There were no Notices of Findings and Recommendations (NFRs) issued with this audit; however, there were several recommendations for management’s consideration.

The Agency conducted an audit of the death benefit oversight process from June 2022 to May 2023. There were two NFRs for this audit. First, the audit found that Accenture Federal Services (AFS) has not provided sufficient access to the surveillance data for death benefit cases they have processed. Second, AFS death benefit processing lacks a robust secondary-level quality assurance review. In response to a question from Chair Gerber, Ms. Holmes clarified that surveillance data is the data from AFS that the Office of Participant Experience (OPE) reviews in order to oversee

the contract, and at the time of this audit, OPE did not have sufficient rights to view all the data.

Ms. Holmes and her team continue to review the file plans for each office. The Office of the Chief Financial Officer file plan review is about 90 percent complete and then the Office of Resource Management will be the last review to complete the project. Other internal audit activities include updating the internal audit policy and procedure, planning for upcoming audits, and developing the audit plan for 2024 and 2025.

5. Adjourn.

Whereupon there being no further business, the following motion was made, seconded, and adopted without objection and Chair Gerber closed the meeting at 10:20 a.m. to enter into executive session.

At 3:08 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 3:08 p.m.

MOTION: That this meeting be adjourned.

Stefanie George
Acting General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics June 2023
2. June 2023 Investment Program Review
3. FY 2023 3rd Quarter Budget Review
4. Quarterly External Audit and Remediation Status July 2023
5. Internal Audit Update