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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 23, 2024

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 23, 2024, 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 Weaver, Director, Office of External Affairs; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Participant Experience; Sean McCaffrey, Chief Investment Officer; David Heimann, Acting Chief Information Officer; Thomas Brandt, Chief Risk Officer; and Trevor Williams, Chief Financial Officer.

<u>Welcome and Introductions</u>.

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

1. <u>Approval of the Minutes of the March 26, 2024, Board Meeting</u>.

Chair Gerber entertained a motion for approval of the minutes of the March 26, 2024, Board meeting. The following motion was made, seconded, and adopted without objection:

> <u>MOTION</u>: That the minutes of the Board meeting held on March 26, 2024, be approved.

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

2. <u>Investment Manager Annual Service Review - BlackRock</u>.

Mr. McCaffrey welcomed and introduced Mr. Laurence Fink, Chairman and Chief Executive Officer and his colleagues from BlackRock Institutional Trust Company, N.A. (BlackRock). Ms. Kim Klenk Howells, Managing Director at BlackRock, provided an introduction and an overview of the agenda for BlackRock's presentation. She then introduced Mr. Fink and their BlackRock colleagues.

a. Comments from Mr. Fink

Mr. Fink's opening remarks spoke to the broader subject of retirement in the United States and BlackRock's relationship with the TSP. He stated that BlackRock has worked with the TSP since it was established and emphasized the importance of long-term investing.

Mr. Fink began by discussing the importance of the United States capital markets and public-private partnerships. Mr. Fink noted that the United States was able to recover more quickly than other countries after the 2008 global financial crisis because of the strength of its banking system and capital markets. Recently passed legislation such as the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act and the Inflation Reduction Act (IRA) are evidence of the nation’s continued commitment to infrastructure. Mr. Fink expressed the belief that investments in infrastructure will be necessary to build out the next generation of technology including artificial intelligence (AI). He went on to state that due to the sizeable resources needed to develop and utilize it, AI is the domain of large companies. This differs from the trend over the last 30 years, when most new technologies came from start-up companies that then became big companies. Mr. Fink stated that he is bullish on the future for the United States due to its entrepreneurialism and ingenuity.

Mr. Fink then turned to inflation. He stated that part of the reason inflation levels are above target is that the United States is doing better than imagined despite predictions of a recession. However, Mr. Fink believes that continuing higher interest rates will start to slow the economy. Mr. Fink stated that inflation is being driven less by the cost of goods than by the cost of services as people seek out experiences and entertainment. Additional drivers of inflation include the aging housing inventory, insurance costs, and an increase in demand for resources relating to the CHIPS Act and the IRA. Lastly, Mr. Fink stated that he thought AI could help bring down the costs that have been rising due to inflation.

In response to a question from Member Bilyeu, Mr. Fink expressed support for states and countries such as Australia that have created or are working to create defined contribution plans for their citizens. Mr. Fink also stated that BlackRock is working with some of the states that are attempting to set up plans similar to the TSP.

In response to another question from Member Bilyeu, Mr. Fink stated that research showed that there is a demand for more certainty about what to expect from retirement income, which could increase interest in defined benefit plans. However, the challenge with such plans is making an initial investment that is sufficient to provide for its participants’ retirement needs. Mr. Fink then turned to Mr. Mark McCombe, BlackRock’s Vice Chairman, who discussed the possible annuitization of defined contribution plans and regulations in several countries to highlight the challenges from different approaches.

In response to a question from Member Bridges, Mr. Fink expressed his belief that the debt levels of the states and municipalities will lead to an increase in public-private partnerships in the United States. In the developing world, the combination of the historical structure of institutions like the World Bank and the International Monetary Fund, along with capital requirements for banks, makes it difficult to deploy large sums of money to those countries. Mr. Fink noted that a significant change would be required to make sending capital to these countries viable. He then turned to BlackRock's efforts in to find investment opportunities in the Global South.

In response to a question from Member Olivares about the financial implications of legal immigration resulting from climate disasters, Mr. Fink expressed his belief that such immigration can drive economic growth but will also increase the number of people who need to be educated about the importance of retirement and savings.

In response to another question from Member Olivares, Mr. Fink, along with Mr. McCombe, stated that deferred savings plans that start in early childhood do exist but, to their knowledge, have not been established at scale.

In response to a third question from Member Olivares, Mr. Fink stated that the best way to get TSP participants to feel like they are part of the capital markets is through education about the benefits of participating in those markets.

In response to a question from Chair Gerber, Mr. Fink stated while there has been a decline in the number of companies going public, over time most companies will want to go public because of the associated liquidity. Mr. McCombe added that private equity flowing into 401(k) plans is limited by the litigation environment.

In response to a question from Member Bilyeu, Mr. Fink stated that the way to address short-term concerns about returns is to focus on longer-term metrics.

b. BlackRock Overview

Ms. Klenk Howells, provided an overview of BlackRock's annual service review. See "Investment Manager Annual Service Review (BlackRock)" (attached).

Mr. Paul Whitehead, Deputy Head of Index Equity, began by noting that BlackRock's one-year return on the C Fund, S Fund, and I Fund was 29 percent. The C Fund exceeded its benchmark by 0.4 basis points, and the S and I Funds each exceeded their respective benchmarks by 25 basis points. He went on to discuss securities sampling, tax advantages, and the percentage of investments that BlackRock has in the United States.

Following Mr. Whitehead, Mr. Jay Mauro, Head of Index Fixed Income Portfolio Management in the Americas, updated the Board on the status of certain BlackRock projects, including cross-collaboration with its partner teams in global investing, liquidity provisioning, and analytics enhancement. Mr. Mauro discussed an increase in the use of algorithms, increased participation in new deals, and an increased focus on interest rate volatility. He also stated that they were taking steps to protect against changes in mortgage rates.

Mr. Gene Meshechek, Global Head of Clients for Securities Lending in BlackRock's Global Markets Group, then discussed performance. Mr. Meshechek began his remarks by noting that BlackRock had made several staffing changes due to shifts in securities lending and the capital markets. He then proceeded to discuss the performance of each of the TSP funds and the impact that the borrowing market had on these funds.

In response to a question from Mr. Deo, Mr. Fink stated his belief that the Basel III Endgame is likely to be deferred in the United States but is unlikely to be deferred in Europe. In response to a follow-up question from Mr. Deo, Mr. Meshechek explained that such a difference in the timing of implementation would be beneficial to U.S. banks, who are the largest counterparty in the TSP's securities lending program.

In response to another question from Mr. Deo, Mr. Fink stated that BlackRock was both outsourcing its cloud and making investments in technology companies. Mr. Fink also highlighted the benefits of having Aladdin as a revenue center and not a cost center.

In response to a question from Member Olivares, Mr. Meshechek indicated that BlackRock has not seen consumer discretionary shorting being impacted by embedded lending. Mr. Fink added that BlackRock has been able to increase productivity over the past 18 months through the use of technology.

In response to a question from Member Bridges, Mr. Meshechek said that the Risk Management Association (RMA) and the International Securities Lending Association (ISLA) had provided opinions on whether Basel III would be delayed.

In response to another question from Member Bridges, Mr. Meshechek said that he believes that BlackRock's use of AI sets it apart from its competitors. He went on to make it clear that this use of technology is not limited to AI and includes, among other examples, the use of algorithms that help BlackRock trade.

In response to a third question from Member Bridges, Mr. Whitehead stated that BlackRock continues to expand the counterparties in its diverse broker program.

3. <u>Monthly Reports</u>.

a. Participant Activity Report

Mr. Courtney reviewed the monthly Participant Activity Report. See "Participant Activity Report March 2024" (attached). Mr. Courtney reported that the Plan reached several new highs in March. The FERS participation rate climbed to nearly 96 percent. FERS and BRS active-duty participants receiving the full match by contributing at least five percent of their salaries reached more than 87 and 86 percent, respectively. And participants rolled more than 6,000 checks totaling over 282 million dollars into the

TSP from other qualified plans. Mr. Courtney shared that more than three-quarters of those rolling money in used the concierge service, and about one in five is rolling money in from more than one account.

In response to a question from Member Olivares, Mr. Courtney said he did not know from how many different plans participants hold outside of the TSP because the FRTIB does not track that. Rather, he sees the large number of roll-ins overall as a sign of participant confidence in the TSP.

b. Legislative Report

Ms. Weaver reported that the House was not in session, the Senate was working on the foreign aid bill, and there were no pending bills relevant to the TSP.

4. Quarterly Reports.

a. Investment Review

Mr. McCaffrey first reviewed the monthly investment performance report. See "March 2024 Investment Program Review" (attached). For the month of March, BlackRock's performance for the F Fund lagged the Fixed Income Index returns by five basis points, primarily due to month-end pricing differences. Performance for the C and S Funds was in line with the funds' respective indices. For the I Fund, performance was ahead of the International Index by nine basis points, primarily due to fair value pricing.

For State Street in March, performance for the F Fund lagged the Fixed Income Index returns by five basis points due to month-end pricing differences. Performance for the C, S, and I Funds was in line with the funds' respective indices.

Looking at the markets in March, Mr. McCaffrey reported that the U.S. economy once again experienced healthy job growth coupled with elevated inflation. The Federal Reserve noted these conditions as it reiterated its commitment to restoring price stability while seeking maximum employment. For the fifth consecutive meeting, the Central Bank elected to not change its target short-term interest rate. Long-term interest rates edged lower, contributing to a gain for the F Fund. The C and S Funds posted gains. The I Fund also rose, although its growth was dampened by a stronger U.S. dollar. All L Funds finished higher.

For the year-to-date, BlackRock's performance for the F Fund was ahead of the Fixed Income Index return by four basis points, primarily due to year-end pricing differences. C Fund performance was in line with the Large Cap Index. S Fund performance lagged the Small Mid-Cap Index by four basis points, primarily due to securities sampling. Lastly, performance for the I Fund exceeded the International Index by 23 basis points, primarily due to fair value pricing.

For State Street, year-to-date performance for the F Fund was ahead of the Fixed Income Index return by four basis points, primarily due to year-end pricing differences. For the C and the S Funds, performance was in line with the funds' respective indices. And for the I Fund, State Street lagged the International Index by five basis points, primarily due to fair value pricing.

Mr. McCaffrey next stated that the stock market has been weaker in April, erasing some of the year's gains. As of April 22, 2024, the month-to-date returns for the C Fund were down 4.58 percent, the S Fund was down 6.78 percent, the I Fund was down 3.61 percent, and the F Fund was down by 2.24 percent. The G Fund was ahead by 0.26 percent.

Turning to L Fund participation and interfund transfers (IFT), Mr. McCaffrey reported that participation in the L Funds continued to grow, primarily due to automatic enrollment of new participants. Fifty-four percent of accounts now own at least one L Fund. IFTs were largely subdued, with modest net positive IFTs for the stock funds, while the G Fund experienced offsetting net negative IFTs. Approximately 2.1 percent of participants moved assets between funds in March, close to the long-run median of two percent.

Mr. McCaffrey next provided quarterly updates, beginning with proxy voting for the fourth quarter of 2023. Audits of BlackRock's and State Street's proxy voting conducted by Institutional Shareholder Services (ISS) found no exceptions to either manager’s established guidelines during the period.

Mr. McCaffrey then discussed class action settlements. BlackRock began the fourth quarter with 92 open claims. During the quarter, 17 new claims were opened and 20 were closed. One of these claims in the F Fund and three claims in the S Fund were closed due to administrator action. Two claims in the C Fund and 14 claims in the S Fund were settled for about 225,000 dollars and 2.4 million dollars respectively. Two previously closed claims in the C Fund and 11 previously closed claims in the S Fund yielded residual payments totaling over 60,000 dollars, bringing total proceeds for the quarter to over 2.6 million dollars across all four funds. Eighty-nine claims remained open at the end of the quarter. The total of settled claims in 2023 was over 10.5 million dollars.

In class action settlements for State Street, they began the quarter with 12 open claims. Three claims were opened in the S Fund, two claims were closed in the S Fund due to administrator action. A residual payment from a previously closed S Fund claim yielded over 6,000 dollars. Thirteen claims remained open at the end of the quarter, and total settled claims in 2023 were under 11,000 dollars.

b. Budget Review

Mr. Williams presented the quarterly budget update. See “FY2024 2nd Quarter Budget Review” (attached). He noted that the Board-approved budget for the

2024 fiscal year was 476.1 million dollars, and that the Agency has only spent 58 percent of that amount. The committed budget is 274.5 million dollars, and the largest expenditure is recordkeeping.

c. Audit Status

Mr. Williams reviewed the quarterly external audit and remediation status. See "Quarterly External Audit and Remediation Status April 2024" (attached). He stated that there are 13 audits for Fiscal Year (FY) 2024 with one completed, 11 in progress, and one not started. The majority of audits are with the Employee Benefits Security Administration, while others are with CliftonLarsonAllen and the Government Accountability Office. The Agency closed two recommendations this quarter and a total of nine for FY 2024, with a goal of 15 closures for FY 2024.

5. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, provided an internal audit update. See "Internal Audit Update" (attached). Ms. Holmes began by reporting that her team completed the file plan review and the improper payment audit, and the records management audit was in progress. They also conducted a review of the internal control process at the request of the Chief Risk Officer. Ms. Holmes next discussed the Monitoring of Converge audit, which her office completed in January with one Notice of Findings and Recommendations (NFR), and the 2024 FISMA audit, which is due at the end of July. Ms. Holmes described the progress for the FY 2024 audits as good.

In response to a question from Member Olivares, Ms. Holmes stated that her office had the resources necessary to conduct its planned audits in 2024 and will consider if they need more resources for 2025. In addition, she expected changes to her audit plan and would update the Board as needed.

6. Office of the Chief Financial Officer (OCFO) Annual Presentation.

Mr. Williams provided the OCFO annual update. See "Office of the Chief Financial Officer Annual Update" (attached). He began by explaining that his office has four divisions and provides leadership, guidance, support, and oversight to the Agency and its stakeholders on all financial, procurement, and external audit matters. Accomplishments over the past year included closing over 50 percent of audit recommendations, reorganizing to bring the Acquisition Management Division under OCFO, and transitioning the investment system to the cloud.

Mr. Williams concluded his presentation by discussing the responsibilities of each of the four divisions within his office. The Acquisition Management Division procures all goods and services for the Agency and oversees the Government Purchase Card program. The External Audit Management Division manages all of the external audits discussed in the Audit Status presentation as well as remediation of audit findings. The Financial Management Division handles accounting and financial reporting, including investment operations, and it oversees the Agency's integrated financial systems. Finally, the Budget Activity Division formulates and executes the Agency's budget and oversees the Interagency Agreement program for services provided to and from other government agencies.

7. Adjourn.

On a vote taken by the Chair, the members closed the meeting at 12:08 p.m. to enter into executive session.

At 2:13 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 2:13 p.m.

MOTION: That this meeting be adjourned.

STEFANIE GEORGE Digitally signed by STEFANIE GEORGE
Date: 2024.07.05 08:35:00 -04'00'

Dharmesh Vashee
General Counsel
and Secretary

Attachments

1. Investment Manager Annual Service Review (BlackRock)
2. Participant Activity Report March 2024
3. March 2024 Investment Program Review
4. FY2024 2nd Quarter Budget Review
5. Quarterly External Audit and Remediation Status April 2024
6. Internal Audit Update
7. Office of the Chief Financial Officer Annual Update