MINUTES OF THE MEETING OF THE BOARD MEMBERS

MARCH 25, 2025

Michael Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on March 25, 2025, at 9:00 a.m., Eastern Daylight Time. The meeting was held at 461 West 34th Street, New York, New York and was open to the public via teleconference. In attendance were Dana Bilyeu of Oregon, member; Leona M. Bridges of California, member; and Stacie Olivares of California, member; Ravindra Deo, Executive Director; Dharmesh Vashee, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director; Gisile Goethe, Director, Office of Resource Management (by telephone); James Courtney, Director, Office of Participant Experience; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Information Officer (by telephone); Thomas Brandt, Chief Risk Officer; Trevor Williams, Chief Financial Officer (by telephone); and James Kaplan, Director, Office of External Affairs.

Welcome and Introductions.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 9:00 a.m. and welcomed everyone in attendance to the meeting.

1. Approval of the Minutes of the February 25, 2025, Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the February 25, 2025, Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on February 25, 2025, be approved.

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

2. Monthly Reports.

a. Participant Activity Report

Mr. Courtney reviewed the monthly Participant Activity Report. See "Participant Activity Report March 2025" (attached). He reported that the percentage of FERS and BRS active-duty participants contributing at least five percent of salary increased to new highs in February, due to automatic enrollment and reenrollment. In addition, the Agency electronically delivered more than seven million annual statements to participants and mailed five million fewer paper annual statements than in previous years. The average wait time to speak to a ThriftLine agent was 54 seconds, with nearly

85 percent of callers waiting 20 seconds or less. Participant satisfaction with the ThriftLine interaction was at 93.5 percent.

b. Investment Report

Mr. McCaffrey reviewed the investment managers' monthly performance relative to benchmarks. See "February 2025 Investment Program Review" (attached). For the month of February, BlackRock's and State Street's performance for the F, C, and S Funds were in line with the Funds' respective indices. BlackRock's and State Street's performance for the I Fund exceeded the international index by 77 and 79 basis points, respectively, primarily due to fair value pricing.

Bearish sentiment prevailed for the markets in February. The C and S Funds posted losses in February, while the I Fund finished higher, thanks in part to a modestly weaker U.S. dollar and fair value pricing. The F Fund rose as longer-term interest rates declined. The L Income and L 2025 Funds edged higher while the other L Funds finished lower.

BlackRock's and State Street's year-to-date performance for the F, C and S Funds was in line with indices, and their I Fund performance was ahead of the international index by 52 and 49 basis points, respectively, primarily due to fair value pricing. U.S. stock and bond returns are negative so far this month. The C Fund has a loss of 3.04 percent; S Fund is down 2.94 percent; I Fund has a gain of 2.46 percent; the F Fund has lost 0.58 percent; and the G Fund is ahead 0.28 percent.

L Funds participation continued to climb thanks to automatic enrollment of new participants. The number of participants invested in the L Funds grew by about 7,000. The growth was concentrated in the longest-dated L Funds. Interfund transfers (IFT) were high relative to most months on a net dollar basis with just about 10.2 billion dollars net going into the G Fund from other TSP Funds. On a percentage basis, approximately 2.4 percent of participants moved assets between funds in February, a bit higher than the long run median of two percent. Over 97 percent of participant accounts did not move savings between funds in February.

c. Legislative Report

Mr. Kaplan reported that the House of Representatives and Senate passed a continuing resolution (CR) that extends government funding through the end of the fiscal year. Congress may continue to work on fiscal year 2025 appropriations bills, which would then supersede any CR enacted. Both the House of Representatives and Senate have begun work on the fiscal year 2026 appropriations process, as well as on broader tax legislation. Congress continues to discuss legislative options that will raise or suspend the debt ceiling. The Office of External Affairs continues to watch for legislative proposals that could impact the Agency and TSP participants and beneficiaries.

3. Quarterly Vendor Risk Management Report.

Mr. Brandt provided an overview of the Agency's vendor risk management report for the last quarter of the calendar year (CY) 2024. See "Quarterly Vendor Risk Assessment – 4th Quarter CY 2024" (attached). He reported that having analyzed various sources of data and evaluated metrics to assess solvency, liquidity, and profitability for five critical vendors, that all vendors are able to fulfill their contractual obligations to the Agency. The Quarterly Vendor Risk Assessment memorandum to the Board members and the Executive Director provides more detail on the results of the analysis for the 4th quarter of CY 2024.

4. Investment Manager Annual Service Overview - BlackRock.

Mr. McCaffrey welcomed BlackRock associates and introduced Mark McCombe, Vice Chairman of BlackRock and Kim Klenk Howells, Senior Relationship Manager. Ms. Klenk Howells introduced her colleagues Scott Dohemann, who leads client engagement for BlackRock's equity index team; Jay Mauro, who leads the index fixed income platform; and Gene Meshechek, who leads the client business for securities lending platform.

Mr. McCombe began by stating that BlackRock is proud to be a TSP partner. The TSP is a real success story in American retirement, even though retirement continues to be a looming crisis in which people do not have enough money to retire.

Mr. McCombe explained that education is a bedrock of BlackRock's organization with two fundamentals in mind. First, participants must invest for the long-term, even in times of crises. Second, the American economy is very robust; corporate America is in good health. BlackRock remains cautious during the period of volatility and the resetting of global trade balances. However, corporate America is adjusting and pivoting, causing the U.S. to continue to be an attractive investment market. There is also an opportunity for international investment. The current political climate may be a catalyst for Europe, which has been fragmented, to come together and remain an important trading block and economic powerhouse.

Regarding the TSP Funds' performance, Mr. McCombe reported that they have tracked their indices, and the securities lending program has enhanced the returns. BlackRock is an independent fiduciary manager, which is at the core of everything that it does. It is not a bank, insurance company, or sovereign wealth fund. The growth in TSP balances have a linearity, which points to the strong underlying capital markets.

Mr. McCombe shared that BlackRock recently acquired Global Infrastructure Partners to address an infrastructure deficit. It believes that infrastructure will be one of the most important long-term asset classes. Later this year, BlackRock will close on HPS Investment Partners, which manages strategies in private credit.

Mr. Dohemann provided the C, S and I Fund overview. See "Investment Manager Annual Service Review (BlackRock)" (attached). BlackRock's equity index business continues to thrive. At the end of December 2024, it managed 7.75 trillion dollars in assets with 400 million dollars inflow to index assets, mostly the iShares platform. Investment in exchange-traded funds has increased by retail and institutional investors and advisors.

He explained that BlackRock's investment philosophy is the concept of total performance management, in which it balances return, risk, and cost for each investment decision. BlackRock leverages its portfolio management technology for trading and portfolio construction, while allowing managers to work on assessing complex corporate actions, portfolio optimization, index rebalances and making small micro-value decisions.

BlackRock's investment process has remained the same since its last report to the Board. The process has four disciplines: an experienced index research team; homegrown portfolio construction; global trading platform with data-driven trading research; and independent oversight from the risk and quantitative analysis group.

In response to a question from Mr. Deo, Mr. Dohemann stated that BlackRock is starting to use artificial intelligence (AI) to the extent it can. BlackRock has an AI lab at Stanford University, which allows it to innovate. Regarding the growth of indexing, there is a long runway; only about ten to twenty percent of the investable universe is indexed.

Regarding fund performance, Mr. Dohemann reported that the C Fund was up 25 percent last year and the S Fund up 17 percent. Both the C and S Funds were up about 25 percent in 2023. The three factors that contributed to the good performance were optimism around economic growth, potential for interest rate reductions, and the prospect of AI.

Fourteen percent of the C Fund came from seven tech stocks; the remaining 11 percent came from the remaining 490 companies. The returns in the S Fund were driven relatively equally across financial and tech sectors. The total return of the international index was approximately four percent; non-U.S. markets lagged the U.S. by a fair amount in 2024. The main driver of the positive returns in the I Fund comes from the financial sector.

Looking at the C Fund's attribution, Mr. Dohemann explained that underperformance by two basis points was due to the impact of futures and cash drag coupled with some small security mis-weights. The S Fund outperformed the index by 10 basis points in 2024. The driver of the overperformance was due to securities lending. The I Fund underperformed its index by 17 basis points, due to fair value pricing. Fair value pricing is an accounting adjustment applied to account for U.S. market move. Stripping the fair value pricing out, the I Fund was up nine basis points from its index, due to security sampling, dividend taxes, futures cash, and rebalancing costs. In total, the funds are in line with BlackRock's expectations.

Mr. Mauro provided the F Fund overview. BlackRock has a multi-sector portfolio management team, and its fixed income portfolio is comprised of government, mortgage-backed and investment-grade corporate bond securities. The team is organized as sector specialists, which brings subject-matter expertise and allows for long-standing centers of excellence.

The government bond market is at a "new normal" and is similar to the market before the global financial crises. Because BlackRock has seasoned portfolio managers, they have the experience to ensure that the portfolio has the right security sampling tolerances in place to weather the current volatility. In 2024, the ten-year charge rate varied from 3.85 percent to 4.8 percent. Credit spreads were more subdued and tightened throughout the year without much volatility. This helps shape how BlackRock approaches sampling. There is still volatility and reaction to data; markets can reprice quickly in response to the latest data.

Mr. Mauro discussed how BlackRock approaches mortgage-based securities through a process that accounts for risk and volatility. For the corporate bond portfolio, BlackRock maintains tight tolerances across sector, issuer and CUSIP level. The TSP portfolio has a 93 percent replication ratio at the CUSIP level. BlackRock leverages investment algorithms to help scaffold the Aladdin portfolio construction infrastructure so the portfolio managers have more time to focus on new issues.

Mr. Mauro provided that new issue participation has increased over time. In 2024, BlackRock participated in over 90 percent of the 1,800 unique deals in the corporate bond market. Regarding treasury positions, BlackRock is focused on on-the-run versus off-the-run securities; there is some basis between the two and BlackRock ensures that it is hedged against that. BlackRock also ensures that it does not have any unintended yield curve exposure.

In 2024, the average return was 1.25 percent; this year, the return is over 2.4 percent year-to-date. The TSP's fixed income portfolio outperformed by 11 basis points, primarily due to pricing issues. Securities lending added one basis point. From inception, the F Fund is up 13 basis points. He attributes the results to BlackRock's sampling approach.

Mr. Meshechek provided the securities lending overview. Securities lending is a tool to help achieve better tracking outcomes and to offset the cost of investment management. Clients expect this to be low risk, but it is a market activity, which comes with risk. However, BlackRock attempts to mitigate the negative exposure potential for TSP participants.

In May 2024, the United States, Mexican and Canadian markets moved from a trading day plus two settlement to a trading day plus one settlement environment. With this change, the market has functioned extremely well; market participants were well prepared for the new environment. Also, in October 2023, the SEC adopted its Rule 10c-1, requiring increased transparency into securities lending transactions. BlackRock is prepared when the rule is implemented.

Mr. Meshechek stated that BlackRock continues to be focused on expanding its quantitative low-touch trading footprint. Dealers expect efficient delivery of securities; this will help TSP assets to be loaned quicker relative to others and allows BlackRock to price more effectively. BlackRock also continues to work with Stanford's AI lab and is investing in algorithms that route trades to the most appropriate venue, source more liquidity, and predict pricing and trade volume.

Securities lending and indexing are the perfect match because the assets are across the broad landscape of markets. Lending assets in terms of indexing is growing quite significantly, and BlackRock is rebuilding certain operational architecture to better manage its security lending platform and to handle big volumes and large pools of assets.

In response to questions from Member Bridges, Mr. Meshechek stated that the securities lending industry is well positioned to prepare for SEC Rule 10c-1 implementation. The industry had prepared for a January 2026 implementation date, and the rule is similar to Europe's reporting regime. Also, Mr. Meshechek provided an update on Basel III. U.S. banks were focused on the potential negative impacts of higher capital requirements, which put a pause on Basel III implementation last year. Basel III's future is unknown, but regardless of what happens, banks are looking for more capital-efficient trading structures. The pause has given BlackRock more time to work with borrowers.

Mr. Meshechek explained that securities lending performance is countercyclical to broader markets; outsized performance generally needs volatility or a bearish skew. Given the performance of the S&P 500 in 2023 and 2024, lending opportunities in large-cap U.S. equities decreased. Small-cap equities were more in demand than large-cap, but there was a notable drop in demand in 2024. The S Fund's 2024 performance also declined relative to 2023.

The I Fund was the only one of the four funds whose lending revenues increased in 2024 relative to 2023, due to the introduction of emerging market equities to the portfolio. The emerging market component drove more daily lending revenue than the broader developed component. The F Fund had limited opportunity of lending treasuries. The opportunity came from investment-grade corporate bonds, driven by the industrial and consumer discretionary sectors.

5. <u>Adjourn</u>.

On a vote taken by the Chair, the members closed the meeting at 9:55 a.m. for executive session.

At 11:03 a.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 11:03 a.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Participant Activity Report March 2025
2. February 2025 Investment Program Review
3. Quarterly Vendor Risk Assessment – 4th Quarter CY 2024
4. Investment Manager Annual Service Review (BlackRock)