



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

January 18, 2017

MEMORANDUM FOR BOARD MEMBERS KENNEDY, BILYEU, McCRAY,  
JONES AND JASIEN

FROM: GREGORY T. LONG  
EXECUTIVE DIRECTOR

SUBJECT: December 2016 Performance Review - G, F, C, S, I, and L Funds

**INTRODUCTION**

This report reviews key aspects of the investment performance of the G, F, C, S, I, and L Funds, investment manager performance and tracking error, trading costs, TSP fund performance, and L Fund participation.

**TRACKING ERROR - TSP Separate Accounts at BlackRock (BTC)**

***Monthly Tracking Error***

<b><u>Fund</u></b>	<b><u>% BTC Returns</u></b>	<b><u>% TSP Returns</u></b>	<b><u>% Index Returns</u></b>	<b><u>BTC T.E.</u></b>	<b><u>TSP vs. BTC</u></b>
Fixed Income	0.16	0.16	0.14	0.02	0.00
Large Cap	1.98	1.98	1.98	0.00	0.00
Small Mid Cap	1.81	1.81	1.80	0.01	0.00
International	3.44	3.44	3.42	0.02	0.00

***2016 Year-to-Date (YTD) Tracking Error***

<b><u>Fund</u></b>	<b><u>% BTC Returns</u></b>	<b><u>% TSP Returns</u></b>	<b><u>% Index Returns</u></b>	<b><u>BTC T.E.</u></b>	<b><u>TSP vs. BTC</u></b>
<b>Fixed Income</b>	<b>2.95</b>	<b>2.91</b>	<b>2.65</b>	<b>0.30</b>	<b>-0.04</b>
Large Cap	12.05	12.01	11.96	0.09	-0.04
<b>Small Mid Cap</b>	<b>16.38</b>	<b>16.35</b>	<b>15.75</b>	<b>0.63</b>	<b>-0.03</b>
<b>International</b>	<b>2.18</b>	<b>2.10</b>	<b>1.00</b>	<b>1.18</b>	<b>-0.08</b>

BlackRock's performance for the F, C, S and I Funds was in-line with indices for the month of December. BlackRock outperformed the Fixed Income Index by 30 basis points for the year primarily due to securities lending. BlackRock outperformed the Large Cap Index and the Small Mid Cap Index for the year by 9 basis points and 63 basis points respectively, primarily due to securities lending. BlackRock outperformed the International Index by 118 basis points for the year primarily due to the reversal of a fair value pricing adjustment on December 31, 2015 and also due to tax effect.

The TSP Funds closely tracked the BTC Accounts for the month. The TSP Funds also closely tracked the BTC Accounts for the year, except for the International Fund due to higher trading costs.

## Trading Costs

		<u>Trading Costs</u>	
<u>F Fund</u>	<u>Dollar Amount</u> <u>Traded</u>	<u>Dollars</u>	<u>Basis</u> <u>Points</u>
December	764,843,110	(3,581)	0.0
Year-to-Date	9,219,731,295	713,753	0.8
<u>C Fund</u>			
December	1,710,784,659	(308,149)	-1.8
Year-to-Date	24,164,157,505	(1,976,317)	-0.8
<u>S Fund</u>			
December	2,092,531,689	(806,190)	-3.9
Year-to-Date	21,064,992,312	(4,230,847)	-2.0
<u>I Fund</u>			
December	1,046,807,091	771,762	7.4
Year-to-Date	17,037,193,316	12,513,108	7.3

\* -- Trading Costs are comprised of commissions, fees, and the difference between the price at which a security is traded and the closing index price.

## TSP Funds (as of December 31, 2016) Returns

	Annualized (%)			
	1 Year	3 Year	5 Year	10 Year
<b>G Fund</b>	1.82%	2.06%	1.91%	2.63%

<b>F Fund</b>	2.91%	3.49%	2.59%	4.59%
Barclays U.S. Agg Bond Index	2.65%	3.03%	2.23%	4.34%
Tracking Error	0.26%	0.46%	0.36%	0.25%

<b>C Fund</b>	12.01%	8.95%	14.73%	7.00%
S&P 500 Index	11.96%	8.87%	14.66%	6.95%
Tracking Error	0.05%	0.08%	0.07%	0.05%

<b>S Fund</b>	16.35%	6.78%	14.84%	8.13%
DJ U.S. Completion TSM Index	15.75%	6.36%	14.38%	7.91%
Tracking Error	0.60%	0.42%	0.46%	0.22%

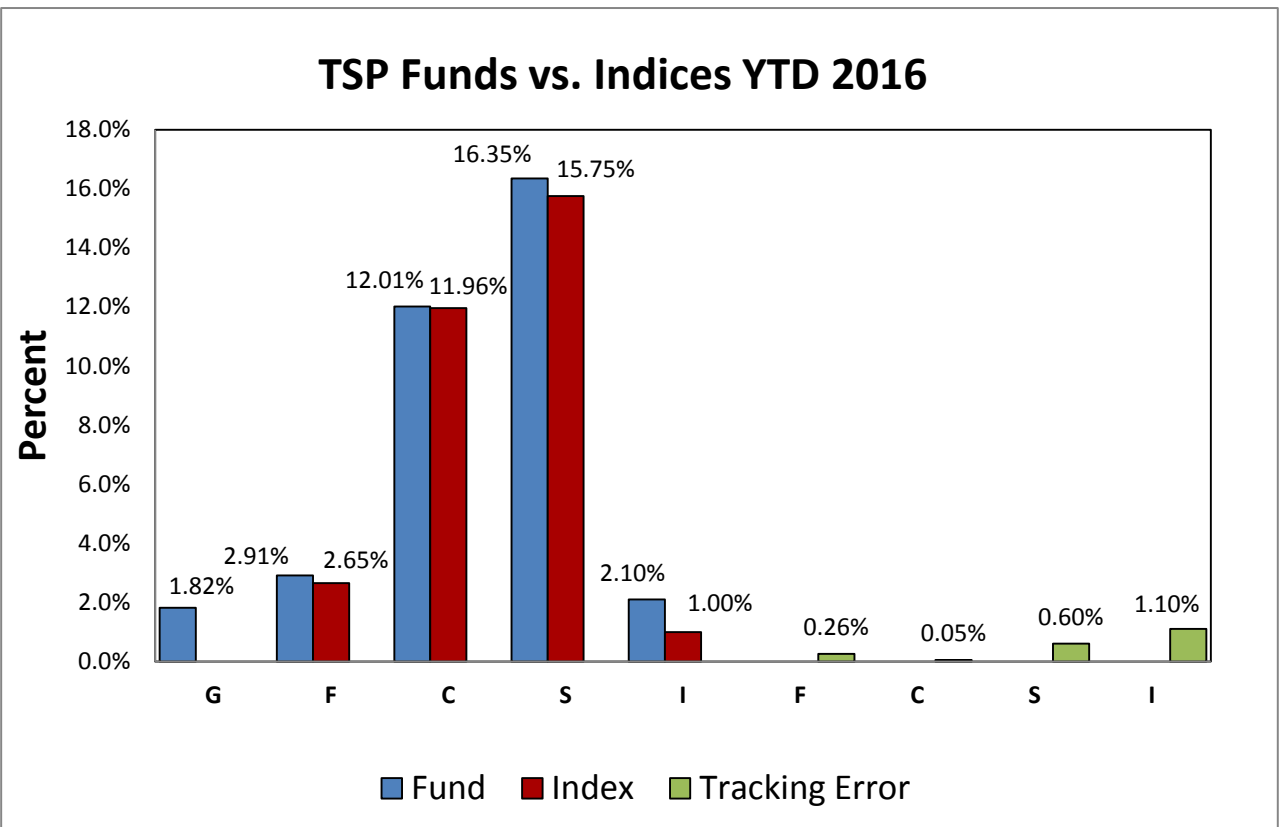
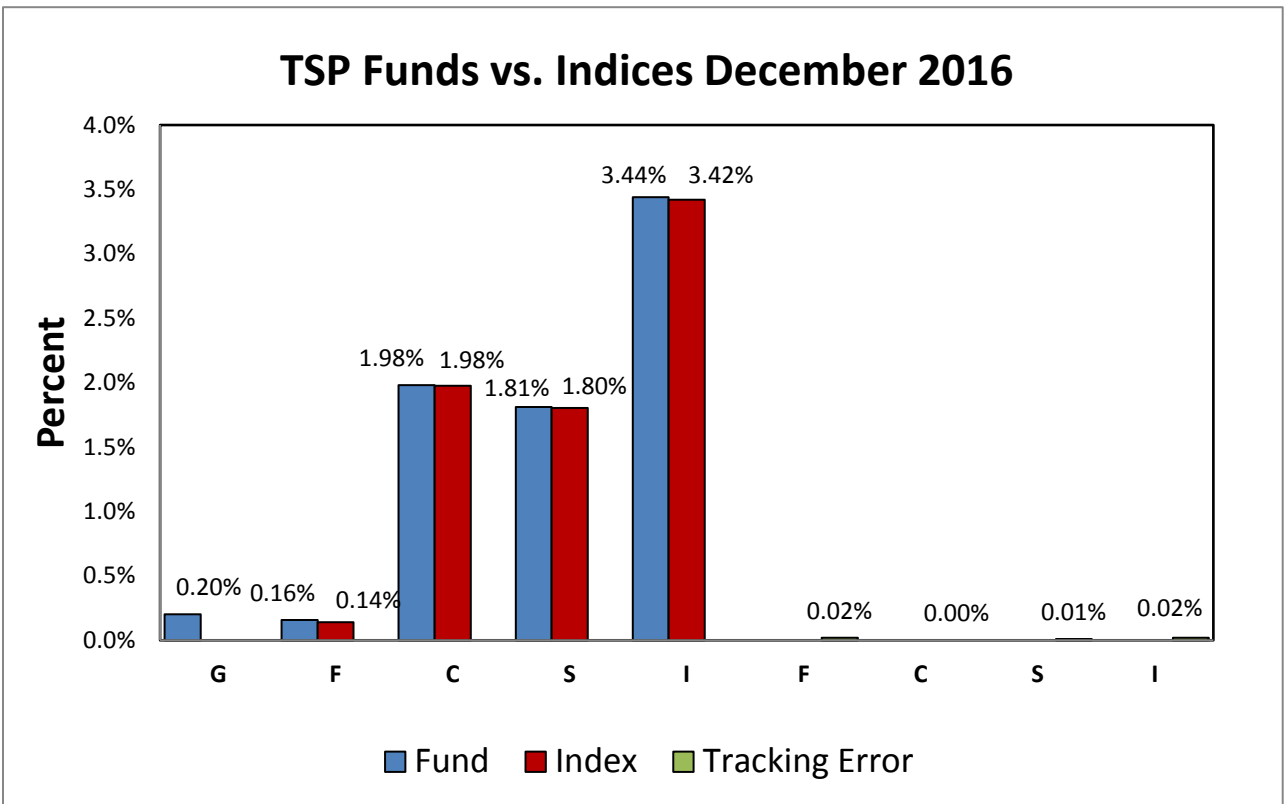
<b>I Fund</b>	2.10%	-1.27%	6.87%	1.02%
MSCI EAFE (Net) Index	1.00%	-1.60%	6.53%	0.75%
Tracking Error	1.10%	0.33%	0.34%	0.27%

### Lifecycle Funds Returns

L Income	3.58%	3.06%	4.18%	3.73%
L 2020	5.47%	3.94%	7.55%	4.62%
L 2030	7.07%	4.58%	9.13%	5.14%
L 2040	7.90%	4.91%	10.21%	5.37%
L 2050	8.65%	5.10%	11.16%	NA

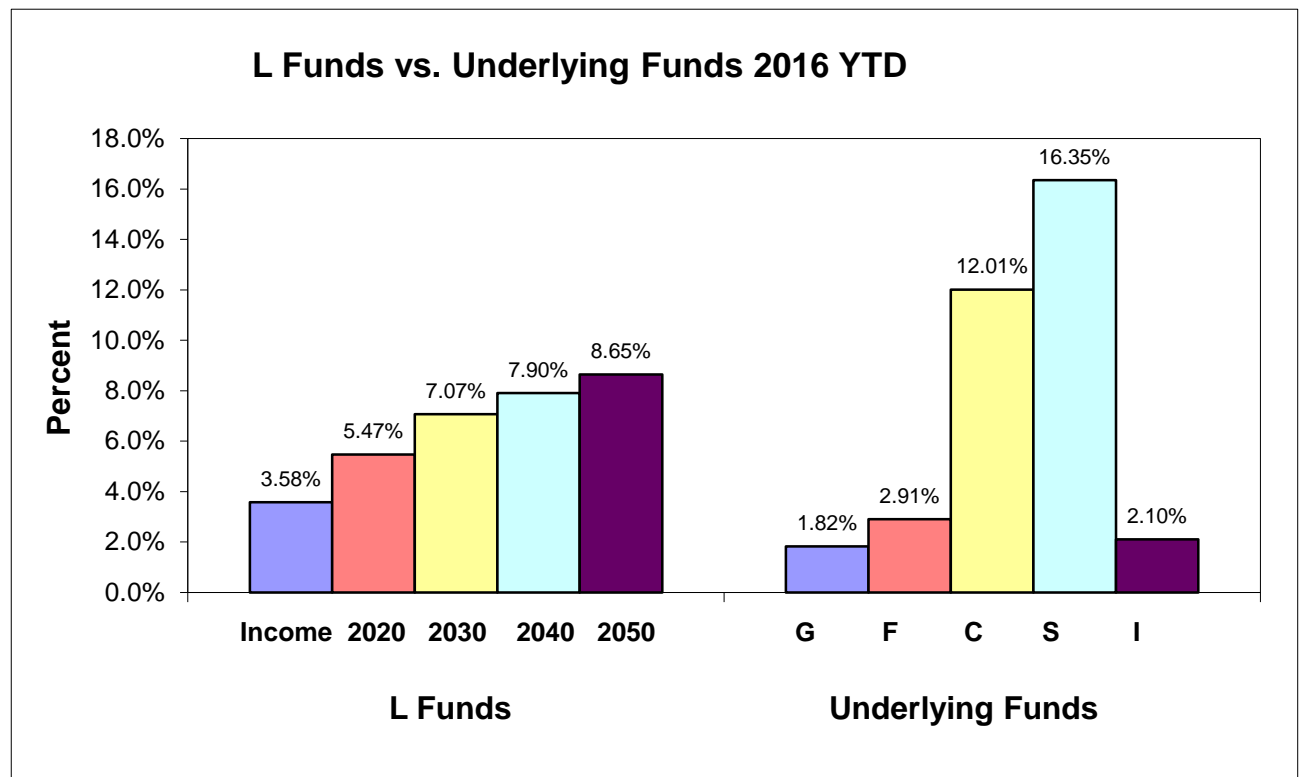
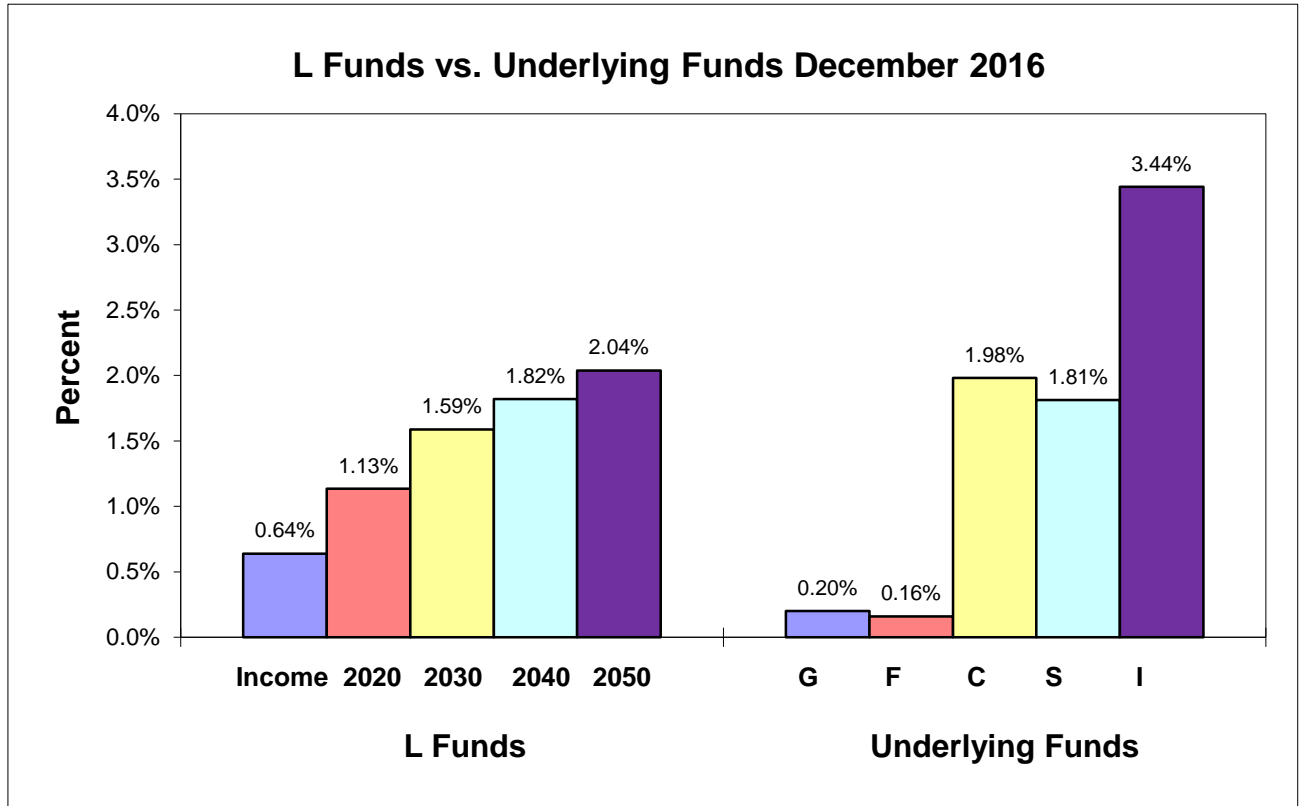
**Performance of TSP Funds Total Returns**

The charts below show the G, F, C, S, and I Fund net rates of return vs. respective benchmark index.



**L Funds**

The net rates of return for the L Funds are shown below along with comparable returns for the G, F, C, S, and I Funds.



**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**

Attachment 1 provides a summary of TSP investment activity and participation rates.

**PROXY VOTING -- THIRD QUARTER 2016**

An audit of BTC’s proxy voting conducted by ISS found no exceptions to BTC’s established guidelines during the third quarter of 2016. A copy of the audit report is provided as Attachment 2. The ISS audit report for the fourth quarter of 2016 is not yet available.

**CLASS ACTION SETTLEMENTS -- THIRD QUARTER 2016**

Twelve claims were opened in three funds during the Third Quarter. Two claims were closed by the Claims Administrator for lack of eligibility reasons. Thirty claims remained open across the four funds. Through the Third Quarter, one claim in the C Fund was settled for \$45.

	<u>Open at Start of Quarter</u>	<u>Opened during Quarter</u>	<u>Closed during Quarter</u>	<u>Open Claims Outstanding</u>	<u>Estimate of Settled Claims in 2016 (\$)</u>
F Fund	4	7	-	11	\$0
C Fund	10	2	-	12	\$45
S Fund	5	3	1	7	\$0
I Fund	1	-	1	-	\$0
<b>Total</b>	<u>20</u>	<u>12</u>	<u>2</u>	<u>30</u>	<u>\$45</u>

**RECOMMENDATION**

The G Fund investments produce long-term yields while incurring no market risk. **I recommend reaffirmation of the current G Fund policy of investing solely in short-term maturities.**

The F, C, S, and I Funds have tracked their respective indices and have incurred low trading costs. **I recommend reaffirmation of the current F, C, S, and I Fund investment policies.**

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 -- et seq.) provides the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f) (1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund and the International Stock Index Investment Fund; and

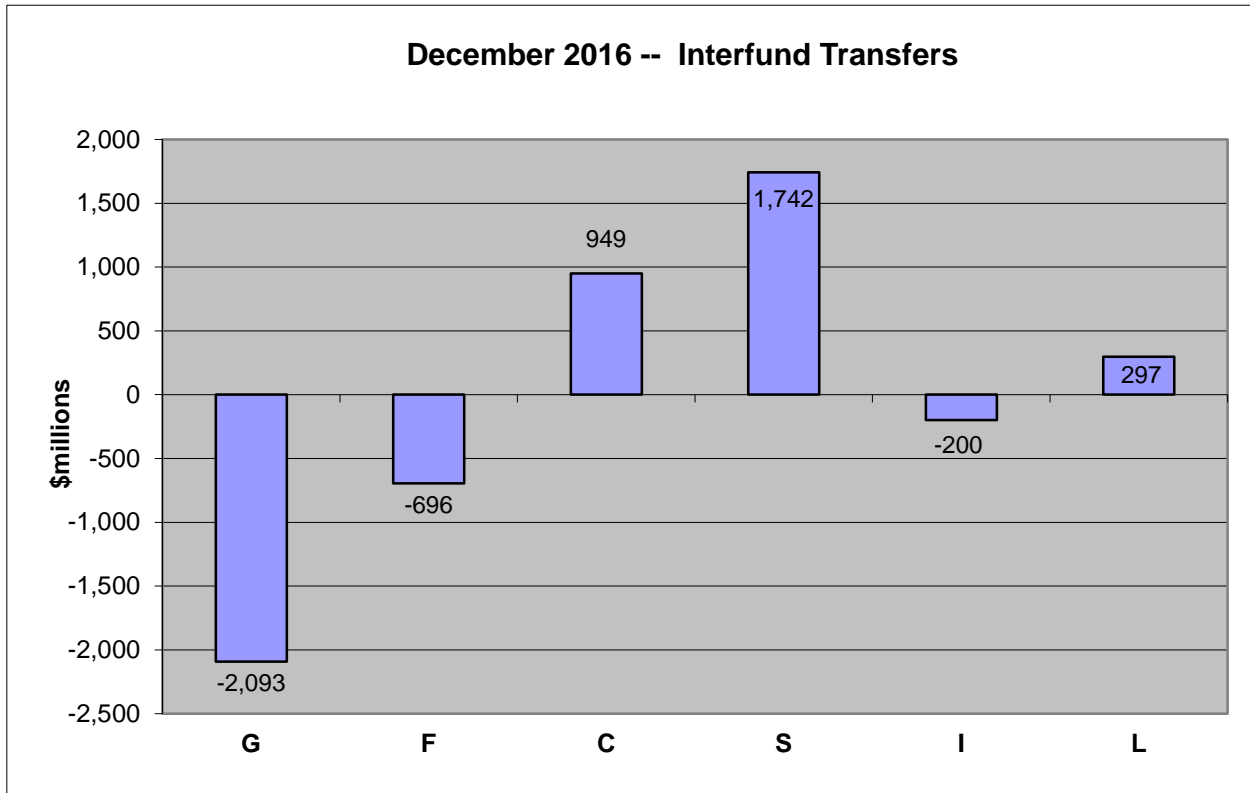
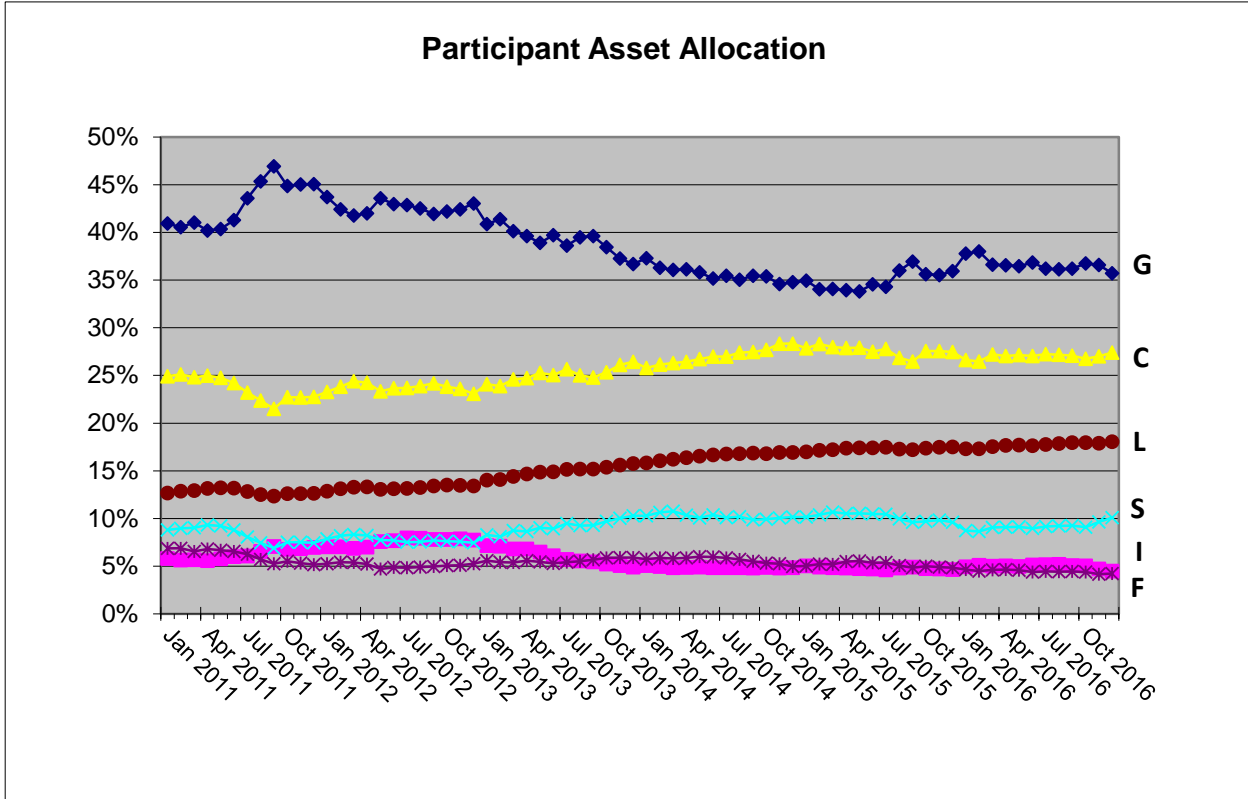
WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Common Stock Index Investment Fund, the Fixed Income Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

Attachments

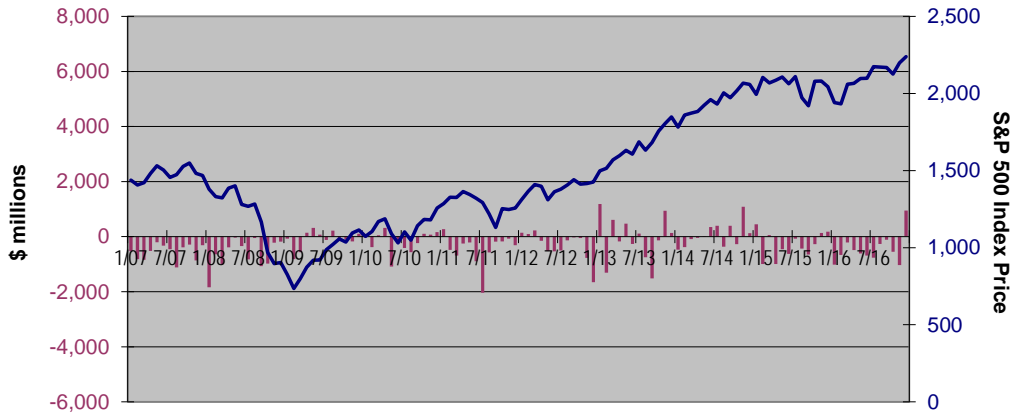
**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**  
**December 2016**

Attachment 1

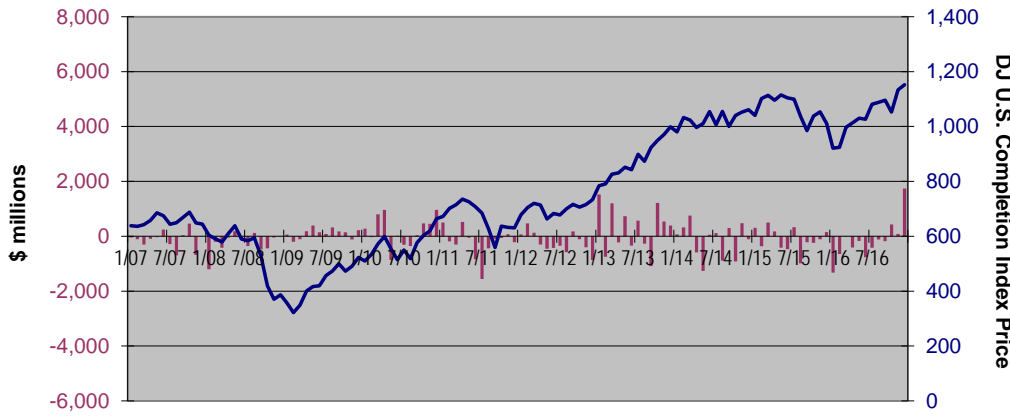


**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**  
**December 2016**

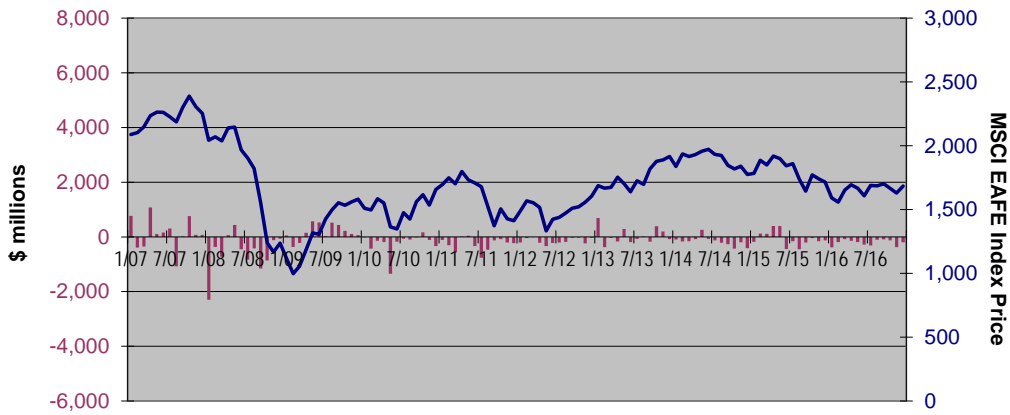
**Monthly Interfund Transfers**  
**C Fund**



**Monthly Interfund Transfers**  
**S Fund**



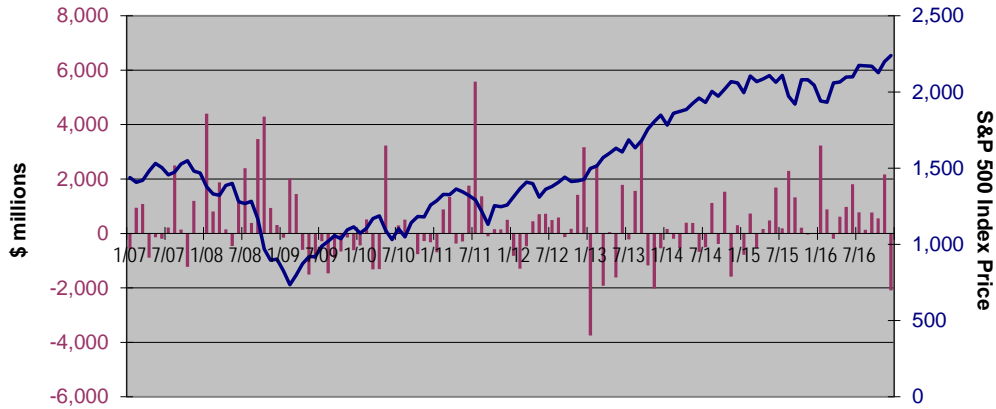
**Monthly Interfund Transfers**  
**I Fund**



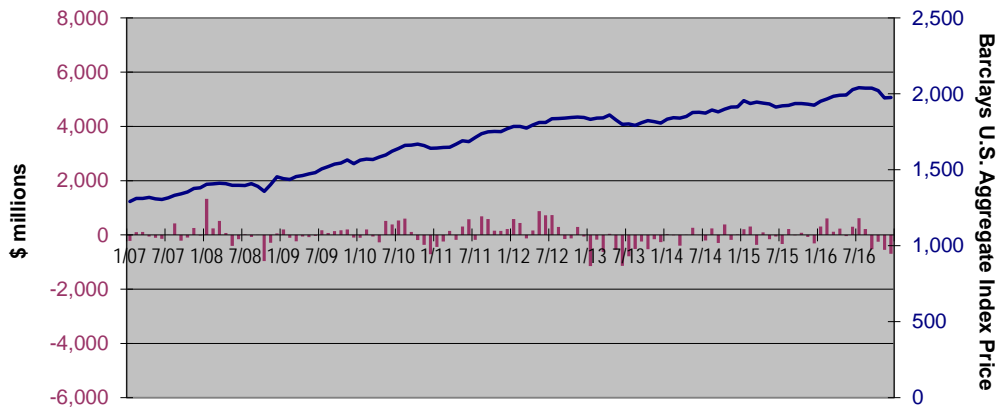


**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**  
**December 2016**

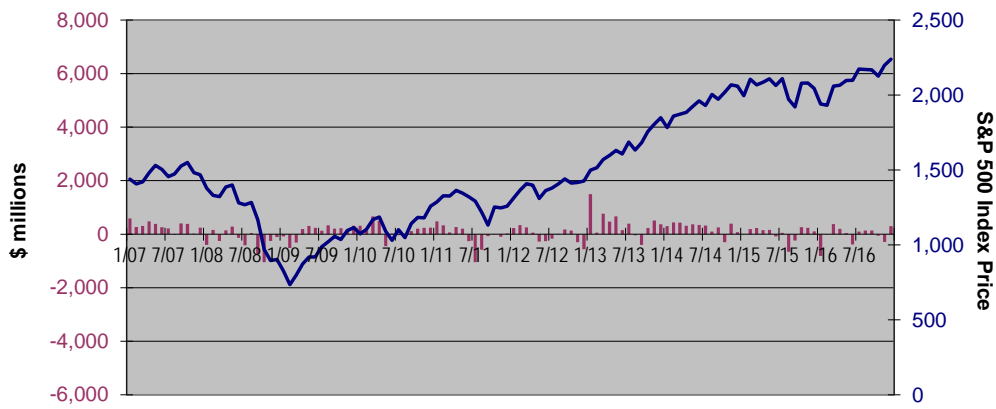
**Monthly Interfund Transfers**  
**G Fund**



**Monthly Interfund Transfers**  
**F Fund**

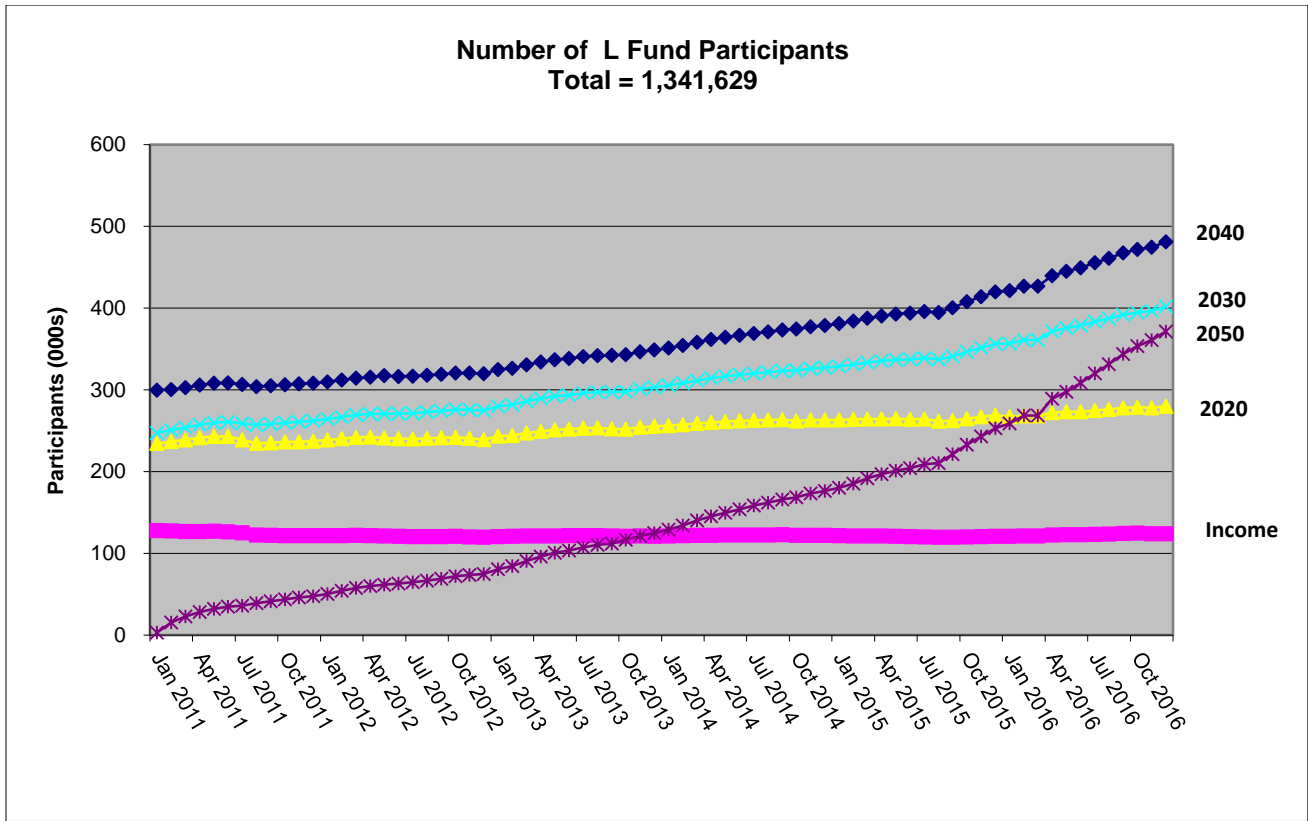


**Monthly Interfund Transfers**  
**L Funds**



# THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY

## December 2016





October 21, 2016

Mr. Zach Oleksiuk, CFA  
Director  
Corporate Governance & Responsible Investment  
BlackRock  
55 East 52<sup>nd</sup> St  
New York, NY 10055

Dear Zach,

Enclosed are the results of our review of US proxy votes by BlackRock for the 3<sup>rd</sup> quarter of 2016. Our review found that there were no exceptions to policy over this period.

Best regards,

A handwritten signature in blue ink that reads "Fasil G. Michael". The signature is written in a cursive, flowing style.

Fasil G. Michael  
Executive Director, Head of Custom Research

**MEMORANDUM**

The results of our review of BlackRock's 3<sup>rd</sup> quarter proxy voting for US meetings are as follows:

- Votes at 40 meetings were examined.
- Votes at 12 of the 40 meetings were for directors, auditors, and/or management say-on-pay (MSOP) only.
- At the 28 remaining meetings, there were 51 non-director/auditor/MSOP proposals.

The following table illustrates the votes involved by proposal type:

Proposal	Votes
Executive stock option plan	11
Non-executive stock option plan	1
Section 162(m)	2
Advisory vote on golden parachute compensation	6
Frequency vote on MSOP	1
Increase authorized common stock	2
Approve conversion of securities	1
Private placement	2
Merger	8
Issue shares in connection with acquisition	1
Issue shares in connection with exchange offer	1
Issue share below net asset value	1
Adjourn meeting	7
Change company name	1
Provide shareholders right to initiate bylaw amendments	1
Authorize investment advisor to modify subadvisory agreement without shareholder approval	1
Amend fundamental investment restrictions of the fundamental restriction funds	1
Reclassify investment objectives of the investment objective funds	1
Other business	1
Shareholder proposal	1
<b>Total:</b>	<b>51</b>

- There were 11 votes cast on executive stock option plans:
  - a) 10 votes were cast in favor of the plans (90.9 percent);
  - b) 1 vote was cast against the plans because the plan contains an evergreen provision and provides for repricing without shareholder approval (9.1 percent).
  
- There was 1 vote cast on non-executive stock option plan; the vote was cast in favor of the plan.
  
- There were 2 votes cast on an increase in authorized common stock; the votes were cast in favor of the increases.
  
- There were 9 votes cast on mergers and/or major corporate transactions, including an issuance of shares pursuant to an acquisition; the votes were cast in favor of the transactions.
  
- There were 20 votes cast on management advisory votes on executive compensation:
  - a) 17 votes were cast in favor of the advisory votes (85 percent);
  - b) 3 votes were cast against the advisory votes, as pay did not appear to be properly aligned with performance and peers (15 percent).
  
- There were 6 votes cast on management advisory votes on golden parachute compensation; the votes were cast in favor of the advisory votes.
  
- There was 1 vote cast on a shareholder proposal to provide proxy access; the vote was cast in favor of the proposal.

There were no exceptions to policy this period.