



MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 23, 2024

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 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 (by telephone); Suzanne Tosini, Acting Executive Director and Chief Operating Officer; Dharmesh Vashee, General Counsel and Secretary; Gisile Goethe, Director, Office of Resource Management; Kimberly Weaver, Director, Office of External Affairs; James Courtney, Director, Office of Participant Experience; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Information Officer; Thomas Brandt, Chief Risk Officer; and Trevor Williams, Chief Financial Officer.

Welcome and Introductions.

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 25, 2024, Board Meeting minutes.

Chair Gerber entertained a motion for approval of the minutes of the June 25, 2024, Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on June 25, 2024, be approved.

Ms. Tosini then gave opening remarks, provided a summary of the agenda, and noted that Thrift Savings Plan (TSP) assets surpassed 900 billion dollars in June.

2. Monthly Reports.

a. Participant Activity Report

Mr. Courtney reviewed the monthly Participant Activity Report. See "Participant Activity Report June 2024" (attached). Mr. Courtney indicated that the L 2070 Fund, designed for participants born after 2004, is ready to launch. In addition, Mr. Courtney shared that preparations are underway to ensure compliance with the next mandatory provisions of the Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0.

Mr. Courtney closed by stating that the Agency issued more than seven million electronic quarterly statements in July. In response to a question from Member Bilyeu, Mr. Courtney indicated that the Agency issues paper statements annually; however, quarterly paper statements are available upon participant request.

b. Legislative Update

Ms. Weaver provided the legislative update. The U.S. House of Representatives is considering multiple appropriations bills, including the Financial Services and General Government Appropriations Act, which contains language directed at the mutual fund window (MFW) and environmental, social, and governance (ESG) mutual funds but passage has been delayed. The U.S. Senate Armed Services Committee has reported its version of the Fiscal Year (FY) 2025 National Defense Authorization Act (NDAA), which does not include any provisions relevant to the TSP.

FRTIB's Office of External Affairs is currently reviewing over 800 amendments to the NDAA to understand whether any of those amendments affect the TSP. Ms. Weaver reported that the U.S. House of Representatives and Senate are both in session through the end of July and then in recess until after Labor Day.

3. Quarterly Reports.

a. Investment Review

Mr. McCaffrey first reviewed the monthly investment performance report. See "June 2024 Investment Program Review" (attached). For the month of June, both asset managers' performance for the F, C, and S Funds were in line with the respective benchmarks for those Funds. BlackRock's and State Street's performance for the I Fund lagged the International Index's return by 51 and 47 basis points, respectively, primarily due to fair value pricing.

Regarding market performance in June, Mr. McCaffrey commented that the Federal Reserve did not change its target for short-term interest rates, their having noted strong job creation and progress in reducing inflation. Overall, the C Fund rose, and the S Fund posted a slight loss. The I Fund fell, due in part to a stronger U.S. dollar. Long-term interest rates fell, which contributed to a gain for the F Fund. Finally, all L funds finished higher.

Moving to year-to-date performance for BlackRock, the F Fund outperformed the Fixed Income Index by 10 basis points, primarily due to year-end pricing differences. The C and S Fund performance for year-to-date was in line with the indices for those Funds. BlackRock's I Fund performance was ahead of the applicable International Index by 22 basis points, primarily due to tax advantage.

For State Street's year-to-date performance, Mr. McCaffrey reported that the F Fund outperformed the Fixed Income Index by nine basis points, primarily due to

year-end pricing differences. The C Fund's performance matched the Large-Cap Index. The S Fund outperformed the Small/Mid-Cap Index by four basis points, primarily due to securities lending. State Street's I Fund performance exceeded the applicable International Index by 25 basis points, primarily due to tax advantage.

Mr. McCaffrey stated that the stock market is ahead for July thus far. As of market close on July 22, 2024, the month-to-date returns are positive 1.97 percent for the C Fund. The S Fund is up 5.32 percent. The I Fund is ahead 2.58 percent. The F Fund has a gain of 1.17 percent, and the G Fund is ahead by 0.27 percent.

Mr. McCaffrey then presented the quarterly reports for the first quarter of 2024. Institutional Shareholder Services (ISS) proxy voting audits of BlackRock and State Street found no exceptions to either asset manager's established guidelines during the period.

Mr. McCaffrey concluded by reporting on class action settlements. BlackRock began the first quarter with 89 open claims. During the quarter, 20 new claims were opened and 17 claims were closed. Total settlements were over 3.8 million dollars and total residual payments amounted to 269,000 dollars. At the end of the quarter, 92 claims remained open. State Street began the quarter with 13 open claims. Eight claims were opened during the quarter. Eight claims were closed due to administrator action, and one claim was settled for less than 9,000 dollars. Twelve claims remained open at the end of the quarter.

b. Budget Review

Mr. Williams presented the quarterly budget update. See "FY2024 3rd Quarter Budget Review" (attached). The Board-approved budget for FY 2024 was 476.1 million dollars. The Agency's execution through June was 400.5 million dollars, leaving 75.6 million dollars for the rest of this fiscal year. Budget execution through June comprised 84 percent of the annual budget, the bulk of which was allocated to recordkeeping. The Agency has executed 99 percent of its third quarter spending plan target. Every unspent dollar is invested on behalf of TSP participants.

c. Audit Status

Next, Mr. Williams presented the quarterly external audit and remediation status. There are a total of 13 audits for FY 2024, with two completed, 10 in progress, and one still planned. See "Quarterly External Audit and Remediation Status July 2024" (attached) for a list of the 13 audits and the status of each.

Mr. Williams explained that the Employee Benefits Security Administration (EBSA) has seven audits, Sikich has three, and the Government Accountability Office (GAO) has two. The Agency has implemented nine recommendations and is tracking 42 open recommendations. There are no new recommendations for FY 2024. External auditors have closed four prior recommendations this quarter, resulting in 36 closed.

In response to a question from Member Bridges, Ms. Weaver stated that there is an open GAO audit related to minority- and women-owned asset management. This review began in the Summer of 2023.

4. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, provided the Internal Audit update, including a 2024 internal audit plan status, two audit report results, and a briefing on internal audit activities. See “Internal Audit Update” (attached). To start, Ms. Holmes shared a progress report on the 2024 Internal Audit Plan. Ms. Holmes’ team has completed four audits to date, and the team is close to completing two additional audits regarding AuditNow implementation and Executive Order 14035 compliance. Ms. Holmes added that her team has begun the court order payment, contracting, and government purchase card audits, and the Federal Information Security Modernization Act (FISMA) audit is almost complete.

Ms. Holmes next discussed the results of two recently completed audits. For the improper payment audit, her team had one finding regarding the need to develop Phase Two procedures and one recommendation. The records management audit, which was designed to assess alignment with the Federal Records Act, resulted in two findings regarding the lack of a comprehensive list of contractors required to take records management training and delays in policies and procedures. Both findings were already being remediated by the Agency when Ms. Holmes issued the audit report. Member Bilyeu asked about the total number of contractors required to take records management training; Ms. Holmes stated that she would follow up and provide that information.

Moving to open audit findings, Ms. Holmes confirmed her team’s receipt of closure packages on several older findings and noted that in the 2024 summary view, 2016 and 2017 have been removed, leaving a view of seven years total. Finally, Ms. Holmes mentioned her team’s other activities, including planning for several upcoming audits of the Office of Technology Services (OTS), issuance of the final FISMA report, and 2025 planning. In response to a question from Chair Gerber, Ms. Holmes confirmed she has sufficient resources to run the internal audit program.

5. Office of Investments Annual Review.

Mr. McCaffrey presented the annual review of the Office of Investments (OI) and began by explaining that the function of OI is to develop and implement investment policy and provide subject-matter expertise for TSP investment programs. See “Annual Review of the Office of Investments” (attached). Mr. McCaffrey provided an overview of the OI’s team structure and added that being a small team, OI accomplishes its objectives by working closely with other Agency offices.

Mr. McCaffrey explained that the OI team draws on significant combined private and public sector experience to address the complex and unique issues facing FRTIB. Specifically, OI engages in multiple efforts to advise on and meet the TSP’s

investment-related goals, including through engagement across all Agency offices and leadership. Meeting these goals requires supervision of investment managers in addition to continuous monitoring of asset allocation, investment strategy, and adherence to industry best practices.

Mr. McCaffrey indicated that OI leverages consultants to optimize investment analysis and decision-making and to help in providing objective and well-formed advice to leadership. Certain projects, such as Lifecycle Fund asset allocation reviews, investment option studies, and benchmark studies, occur regularly. Other projects, such as a Board investment policy review and assistance obtained for the coordination of asset transfers occur only as needed.

Acknowledging the responsibility of overseeing over 900 billion dollars in TSP assets, Mr. McCaffrey highlighted the implementation of TSP investment options over 35 years as they evolved both to facilitate the growth in total TSP account balances from 2.7 billion dollars in 1987 to over 800 billion in 2022 and to meet the needs of TSP participants.

In response to questions from Chair Gerber, Member Bridges, and Member Bilyeu, Mr. McCaffrey, Ms. Tosini, Mr. Courtney, and Ms. Weaver explained that there is some cost to the Agency to maintain the MFW, which is part of the overall recordkeeping cost, but the cost to use the MFW is borne by those who opt to use the window through an annual account fee and a per trade fee. They assured the Board members that the Agency evaluates the costs of the MFW relative to the number of participants using it, that participation in the MFW is expected to grow, and that account setup literature educates participants on the costs of using this investment alternative.

Mr. McCaffrey reviewed recent highlights of the OI team's work. First was the team's focus on a theme of operational excellence throughout OI processes and in its relationship with the OCFO Fund Management division. Next was work with an investment consultant related to the F, C, S, and I Funds' benchmarks, which found that the I Fund would benefit from an expansion of its investable universe. Mr. McCaffrey stated that the Board mandated changes for the I Fund benchmark that are currently being implemented. The final highlight was a change to the L Funds' periodic review policy and the introduction of the new L 2070 Fund this month.

Expanding upon his I Fund comments, Mr. McCaffrey provided a summary of I Fund changes. Based on the Board Members' November 2023 directive to transition from the MSCI EAFE Index to the MSCI ACWI IMI ex USA ex China ex Hong Kong Index, the new benchmark will reach about 92 percent of non-US stock market capitalization that includes approximately 5,600 large-, mid-, and small-cap stocks from 21 developed and 23 emerging market countries. The change is expected to deliver favorable risk-adjusted returns over the long term relative to returns of the EAFE Index.

Turning to the L Funds again, Mr. McCaffrey described that these Funds are built from allocations to the G, F, C, S, and I Funds that are reviewed periodically. The Funds allow participants to balance risk and return depending on their time to retirement

and the specific Lifecycle Funds chosen. Mr. McCaffrey noted that while the L Income Fund and the L Fund nearest to maturity have smaller exposure to stock risk than those L Funds with longer terms to maturity, they still have enough stock risk to give overall participant retirement balances a better chance to grow at faster rates and keep pace with inflation than they would with just fixed income. He also commented on the significant usage of the L Funds by TSP participants.

Mr. McCaffrey closed by describing the importance of quality control and continuous improvement in executing OI's responsibilities. The OI team seeks to be more efficient with data usage and always to improve its control environment. OI will retire the L 2025 Fund next year and introduce the L 2075 Fund. Mr. McCaffrey underscored his commitment to employee growth, leadership training, skills development, and retention.

6. Adjourn.

On a vote taken by the Chair, the members closed the meeting at 10:14 a.m. to enter into executive session.

At 2:07 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 2:07 p.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Participant Activity Report June 2024
2. June 2024 Investment Program Review
3. FY2024 3rd Quarter Budget Review
4. Quarterly External Audit and Remediation Status July 2024
5. Internal Audit Update
6. Annual Review of the Office of Investments