



## FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

### MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 26, 2022

David A. Jones, Acting Chairperson of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 26, 2022, at 10:00 a.m., Eastern Daylight Time. The meeting was held telephonically and open to the public. In attendance were Dana K. Bilyeu of Oregon, member; William S. Jasien of South Carolina, member; Ravindra Deo, Executive Director; Dharmesh Vashee, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director; Kimberly A. Weaver, Director, Office of External Affairs; Susan Crowder, Chief Financial Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Tee Ramos, Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Technology Officer; and Thomas Brandt, Chief Risk Officer.

#### Welcome and Introductions.

Acting Chairperson Jones called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:00 a.m. and welcomed everyone present to the meeting.

#### 1. Approval of the Minutes of the March 24, 2022 Board Meeting.

Acting Chairperson Jones entertained a motion for approval of the minutes of the March 24, 2022, Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on March 24, 2022, be approved.

#### 2. Investment Manager Annual Service Review - BlackRock.

Mr. Deo gave opening remarks, provided a brief summary of the agenda for the meeting, and welcomed Kim Klenk Howells and colleagues from BlackRock.

Ms. Klenk Howells is head of Relationship Management at BlackRock. She provided an introduction and a brief overview of the agenda for BlackRock's presentation. She then introduced Larry Fink, Chief Executive Officer, and Mr. Fink's BlackRock colleagues.

i. Comments from Mr. Fink

Mr. Fink provided a general overview of BlackRock's work with the TSP and an outlook of the U.S. and global economies. He discussed the role that Russia's war on Ukraine has had on global economic activities as well as the economic recovery of various sectors impacted by the pandemic. Mr. Fink also mentioned the role digital currency is poised to play in BlackRock's activities sometime in the future. In response to Board member questions about participant retirement needs and decumulation, Mr. Fink mentioned BlackRock's new no-load annuity plan.

ii. BlackRock overview

Ms. Klenk Howells presented a review of assets under management by BlackRock. See "Investment Manager Annual Service Review" (attached). She noted that BlackRock manages approximately 445 billion dollars in TSP participant assets across the C, S, I, and F Funds.

Ms. Klenk Howells then introduced Paul Whitehead, Managing Director of BlackRock, to present additional information about the management of the C, S, and I Funds. Mr. Whitehead noted that the C fund is positively tracking up two basis points due to securities lending. He also noted that the S Fund overperformed its benchmark primarily due to securities lending and securities sampling, while the I Fund has positive tracking as a result of tax advantage and some negative tracking for the last three months from fair value pricing.

Mr. Whitehead next introduced James Mauro, Managing Director of BlackRock. Mr. Mauro provided an overview of F Fund management. Mr. Mauro stated that the F Fund is tracking its benchmark, despite the supply chain disruptions due to the pandemic and the war in Ukraine, as well as inflation and rising interest rates.

Mr. Mauro next introduced Jason Strofs, Global Head of Product Strategy, Trading and Liquidity Strategies, of BlackRock to deliver remarks on securities lending. Mr. Strofs provided an overview of securities lending and discussed three areas of securities lending that BlackRock is focusing on: data science and artificial intelligence, platform improvements, and market structure. He then discussed the C, S, I, and F funds and noted that 2021 was a good year for revenue opportunities. He mentioned that twenty percent of income for the C fund and about fifteen percent of revenue for the S fund came from the IT sector, while the revenue for the I Fund comes from a variety of corporate actions and two-thirds from French securities. Mr. Strofs also noted that F fund income was due to the demand for U.S. treasuries, which saw an influx of cash into the system due to fiscal stimulus and Federal action as a result of the pandemic.

### 3. Monthly Reports.

#### a. Participant Activity Report

Mr. Ramos reviewed the monthly Participant Activity Report. See “Thrift Savings Fund Statistics March 2022” (attached). He reported that March saw the highest dollar amount of roll-ins in the last two years and increased by more than 11 million dollars over the previous March. Post-separation hardship withdrawals were up higher than in previous years and the staff levels at contact centers have risen to overcome the previous deficit. In response to a question from Member Bilyeu about the increase in roll-in volume, Mr. Ramos attributed the rise to the work of the communications team and mailings that are sent out and the fact that the TSP is the best DC plan in the world.

#### b. Legislative Report

Ms. Weaver began by noting that four out of the five Board member nominees were referred for floor action by the Senate Homeland Security and Government Affairs Committee on March 30th. There is no additional information regarding the timeline of floor action. She also noted that currently there is no legislation her team is monitoring that would impact the TSP.

### 4. Quarterly Reports.

#### a. Investment Report

Mr. McCaffrey reviewed the quarterly investment performance report. See “March 2022 Performance Review – G, F, C, S, I, and L Funds” (attached). For the month of March, Mr. McCaffrey noted that BlackRock’s performance for the F Fund exceeded the Fixed Income Index by seven basis points primarily due to securities lending. BlackRock’s performance for the C Fund was in line with the Large Cap Index returns. It outperformed the Small-Mid Cap index for the S Fund by six basis points, primarily due to securities lending. BlackRock’s performance for the I Fund was behind the International Index by 97 points, mainly due to fair value pricing. State Street’s performance for the F, C, and S Funds was in line with the respective indices.

In the markets, despite growing economic uncertainties due to the war in Ukraine, the C and S Funds gained as investors renewed their interest in U.S. equities. The I Fund posted a small loss, due in part to fair value pricing. The Federal Open Market Committee raised its target range for the federal funds rate and indicated that additional increases were likely to be required to ensure price stability. Longer-term interest rates rose, contributing to the F Fund ending the month with a loss. All L Funds posted gains by the end of the month.

BlackRock’s year-to-date performance for the F fund exceeded the benchmark returns by 20 basis points, primarily due to securities lending. Performance

for the C Fund was in line with the Large Cap Index. For the S Fund, BlackRock outperformed the respective benchmark by 13 basis points, primarily due to securities lending and a difference in the timing of pricing by BlackRock and the index provider on December 31, 2021. Its performance for the I Fund was behind by 85 basis points, primarily due to fair value pricing.

State Street's year-to-date performance for the F and C Funds tracked in line with their respective indices. For the S Fund, State Street outperformed the Small Mid Cap Index by eight basis points, primarily due to securities lending.

For the current month through April 25, the C Fund is down by 5.10 percent, the S Fund is down 6.16 percent, and the I Fund is also down 4.67 percent. The F Fund had a loss of 3.24 percent, while the G Fund gained 0.17 percent.

Participation in the L Funds continued to climb in March, with 50 percent of participants, over 3.2 million, investing at least one dollar in an L Fund. Growth was driven largely by automatic enrollment of new participants.

Interfund transfers dipped slightly below the median of 2 percent during the month of March to 1.73 percent. Mr. McCaffrey noted that there was nothing alarming about the numbers.

Next, Mr. McCaffrey reviewed the quarterly proxy voting and class action settlement reports. An audit of proxy voting found no exceptions to established guidelines during the fourth quarter of 2021 for both BlackRock and State Street.

For the fourth quarter class action report, BlackRock reported that it began the quarter with 69 open claims. The C and F Funds each had one claim opened during the quarter, and the S Fund had 19. Overall, 13 claims were settled for over 2.5 million dollars, including nine claims in the S Fund and four claims in the C Fund. Residual payments for four previously closed S Fund claims paid out about 96 thousand dollars. Two claims in the S Fund were closed due to administrator action, bringing the total closed claims for the quarter to 15. Across the four Funds, 75 claims remained open at the end of the quarter.

For State Street, there were no open claims at the start of the fourth quarter. However, three claims were opened in the S fund and no claims were settled. State Street ended the quarter with three open claims.

#### b. Budget Review

Ms. Crowder reported on the second quarter budget review for Fiscal Year 2022. See "Quarterly Budget Review" (attached). The Agency executed approximately 68 percent of the second quarter targeted spending plan. As of the second quarter, the Agency executed roughly 55 percent, or 274.4 million dollars, against the overall budget

of 496.8 million dollars. Out of the 274.4 million dollars executed, 74 percent was executed to support recordkeeping operations, maintenance, and transition to the new recordkeeping system.

Ms. Crowder reviewed the five-year annual net and gross administrative expense ratio and estimated the gross expense ratio for calendar year 2022 would be approximately 6.2 basis points or less. The budget-to-asset ratio in calendar year 2021 was 6.8 basis points; however, the Agency did not spend 100 percent of the budget in calendar year 2021. The actual gross administrative expense fee for 2020 was 5.3 basis points. In response to a question from Member Jasien, Ms. Crowder confirmed that asset growth would also have been a key contributor to the reduction in expense ratios.

#### c. Audit Status

Ms. Crowder provided an overview of the Agency's audit status. See "Audit Status/Security and Remediation Status" (attached). She reported that there are nine audits planned for the fiscal year, two of which have been completed as of March 31, five in various stages of progress, and the last two in the planning phase. Ms. Crowder then discussed the new guidance from the Office of Management and Budget concerning FISMA audits.

Mr. Deo provided an update on audit remediation status, reporting that the Agency closed five audit findings this last quarter, down from the projected seven closures. He noted that, instead of the 29 audit finding closures projected for all of FY 2022, the Agency has closed 35 and plans to close more. The Agency will continue to remediate audit findings based on risk when it can. As of quarter-end, the Agency has remediated three of three critical findings and 13 of 19 high findings reducing their risk. Mr. Deo concluded his discussion by showing the open vulnerabilities over time resulting from external scans. The Agency has no critical or high vulnerabilities and works to remediate medium vulnerabilities as they arise.

#### Annual Financial Audit - CLA.

Ms. Crowder introduced Michele Chalmers, CliftonLarsonAllen (CLA) engagement principal, who discussed the 2021 annual financial statement audit. See "Federal Retirement Thrift Investment Board-Thrift Savings Fund" (attached). Ms. Chalmers reported that CLA issued an unmodified, "clean" opinion. There were no material weaknesses or significant deficiencies reported in the internal control letter. Ms. Chalmers discussed four best practices and noted that they will be addressed with the new Converge recordkeeping system. There were no changes in scope, accounting policy or significant disclosures. Ms. Chalmers noted that there will not be significant testing on the Converge system change during the June review. That will happen during the annual audit. Ms. Chalmers concluded her presentation by confirming with the Board members that CLA will be paying close attention to the Converge process.

5. Department of Labor Presentation.

Ms. Crowder introduced Michael Auerbach of the Department of Labor Employee Benefits Security Administration (EBSA). Mr. Auerbach presented an overview of the fiscal year 2022 fiduciary oversight program and then introduced Derek Thomas of KPMG LLP, who presented highlights of the overall audit assessment from May 2021 to April 2022. Mr. Thomas also noted considerations for the Board related to the Converge transition. See “U.S. Department of Labor Employee Benefits Security Administration Fiscal Year (FY) 2022 Thrift Savings Plan Fiduciary Oversight Program” (attached). EBSA finalized seven audits, reporting no material instances of non-compliance. They closed 34 agency recommendations and issued 15 new ones, 12 of which are related to fundamental controls.

Mr. Thomas noted that EBSA closed 64 percent of the prior recommendations reviewed during the IT audits, as well as 75 percent of IT recommendations reviewed during process audits. Regarding the trend of closed and new recommendations over the past five years, Mr. Thomas explained that the number of new recommendations continues to fall below the number of closed recommendations for the year. Mr. Thomas noted a continued focus on IT-related recommendations as 72 percent of the new recommendations are IT-related and new findings continue to be issued. The number of findings decreased from 74 to 63. The participant support and board staff audits continue to have the largest number of open recommendations. Overall, outstanding recommendations are down to 119 from 153 from the last year. Mr. Thomas mentioned that 87 percent of those open recommendations are related to IT audits.

Next, Mr. Thomas discussed the actions KPMG has taken to prepare for the Agency move to the new recordkeeping system. He noted that they conducted three performance audits as part of a pre-implementation review and KPMG is now moving to the reporting phases for those audits. There were no findings. Mr. Thomas clarified that KPMG would review the open IT recommendations as they relate to the transition to the new system and encouraged the Agency to continue to assess those recommendations.

Finally, Mr. Thomas highlighted the importance of close collaboration between EBSA and the Agency to determine what new or updated documentation and other details will be needed to determine the scope of audits going forward.

6. Converge Update.

Tanner Nohe, Converge Program Manager, provided an update on Converge. See “Converge Program Update for April 2022” (attached). Mr. Nohe gave a brief overview of the functional areas and then provided updates on data readiness, payroll and security readiness, service readiness, and participant communications. Mr. Nohe mentioned that all phases are on track for the roll out.

Mr. Nohe began by noting that, since March, the focus has been on testing. He summarized that the fourth round of testing was sent over to AFS mid-February, ran for three weeks, and was divided into three phases. Data analysis and correction that had been part of test round three continue to be proven out and additional processes and systems continue to be identified. A final rehearsal will be run by the end of April.

Next, Mr. Nohe mentioned that payroll office and service readiness efforts remain on track, with 94 percent of interconnection security agreements signed to date. Testing and training were separated into two phases. Phase one, computer-based training for Agency users, had a 94 percent participation rate. Phase two, hands-on training and data testing, are about halfway complete and are expected to be finished in late May. Mr. Nohe did not foresee any issues with the roll out. Mr. Nohe also reported that the Converge team began performance testing on March first and will continue testing for 90 days. These tests will simulate what the end-to-end process will resemble once live. Testing is on track.

The three campaigns to communicate changes to participants communications continue to go well. Campaign number one is complete. Campaign number two is in progress and notification emails and mailings regarding service changes and planned downtime to participants and beneficiaries were sent out on March 29th. Additional emails will continue to go out until go-live. Mr. Nohe noted that the TSP website has been updated to reflect transition details and that training teams have updated their presentations with the information. A notice with a timeline of key dates was also sent to participants. Mr. Nohe mentioned that April 29th is the last day for participants to request any paper materials via the ThriftLine and that May 16th is the date when certain transactions will be temporarily unavailable. On May 26th, all transactions will be temporarily unavailable to participants. Mr. Nohe expects full access to be restored by June 1st.

Finally, Mr. Nohe shared that only two milestones are left for the transition: performance targets and the actual go-live. Mr. Nohe mentioned that the Converge team has completed the business continuity exercise and data conversion for round four and he expects to meet the performance targets by the end of May. He reiterated that the milestone for go-live will be reached in the first week of June.

## 7. Adjourn.

On a vote taken by the Acting Chairperson, the members closed the meeting at 12:12 p.m. for executive session.

At 1:03 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 Acting Chairperson Jones adjourned the meeting at 1:03 p.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee  
General Counsel and Secretary

#### Attachments

1. Investment Manager Annual Service Review - BlackRock
2. Thrift Savings Fund Statistics March 2022
3. March 2022 Performance Review – G, F, C, S, I, and L Funds
4. FRTIB FY 2022 2<sup>nd</sup> Quarter Budget Review
5. Audit Status/Security & Remediation Status
6. Annual Financial Audit – CLA Federal Retirement Thrift Investment Board-Thrift Savings Fund
7. U.S. Department of Labor Employee Benefits Security Administration- Fiscal Year 2022 Thrift Savings Plan Fiduciary Oversight Program
8. Converge Program Update