



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

October 11, 2019

MEMORANDUM FOR BOARD MEMBERS

KENNEDY, BILYEU, McCRAY,  
JONES AND JASIEN

FROM: RAVINDRA DEO  
EXECUTIVE DIRECTOR

A handwritten signature in blue ink, appearing to be "RD", written over a light blue circular stamp.

SUBJECT: September 2019 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	-0.54	-0.54	-0.53	-0.01	0.00
Large Cap	1.87	1.87	1.87	0.00	0.00
Small Mid Cap	1.06	1.06	1.00	0.06	0.00
International	2.88	2.87	2.87	0.01	-0.01

***2019 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>
Fixed Income	8.54	8.51	8.52	0.02	-0.03
Large Cap	20.57	20.54	20.55	0.02	-0.03
Small Mid Cap	17.59	17.57	17.53	0.06	-0.02
International	13.20	13.21	12.80	0.40	0.01

BlackRock's performance for the F, C, and I Funds was in line with the Funds' respective indices for the month. Its performance for the S Fund was above the Small Mid Cap Index by 6 basis points, primarily due to securities sampling. For the F and C Funds year-to date, BlackRock's performance was in line with the Funds' respective indices. Year-to-date, BlackRock outperformed the Small Mid Cap Index by 6 basis points, primarily as a result of securities sampling. BlackRock outperformed the International Index by 40 basis points, primarily due to tax effect.

The TSP Funds closely tracked the BTC Accounts for the month. Year-to-date, the F, C, S, and I Funds closely tracked the BTC Accounts.

**Trading Costs**

<b><u>Trading Costs</u></b>			
<b><u>F Fund</u></b>	<b><u>Dollar Amount</u></b> <b><u>Traded</u></b>	<b><u>Dollars</u></b>	<b><u>Basis</u></b> <b><u>Points</u></b>
September	1,132,194,468	69,332	0.6
Year-to-Date	8,179,047,559	687,094	0.8
 <b><u>C Fund</u></b>			
September	2,267,503,797	277,646	1.2
Year-to-Date	24,143,553,907	(4,731,970)	-2.0
 <b><u>S Fund</u></b>			
September	1,420,469,124	409,271	2.9
Year-to-Date	14,275,543,525	(635,795)	-0.4
 <b><u>I Fund</u></b>			
September	1,930,299,467	2,047,051	10.6
Year-to-Date	15,200,431,716	(12,455,120)	-8.2

\*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 September 30, 2019) Returns

G Fund	Annualized (%)			
	1 Year	3 Year	5 Year	10 Year
	2.57%	2.51%	2.29%	2.26%

<b>F Fund</b>	10.32%	3.08%	3.61%	4.00%
Bloomberg Barclays U.S. Agg Bond Index	10.30%	2.92%	3.38%	3.75%
Tracking Error	0.02%	0.16%	0.23%	0.25%

<b>C Fund</b>	4.24%	13.38%	10.86%	13.27%
S&P 500 Index	4.25%	13.39%	10.84%	13.24%
Tracking Error	-0.01%	-0.01%	0.02%	0.03%

<b>S Fund</b>	-3.77%	10.05%	8.70%	12.63%
DJ U.S. Completion TSM Index	-3.96%	9.83%	8.36%	12.31%
Tracking Error	0.19%	0.22%	0.34%	0.32%

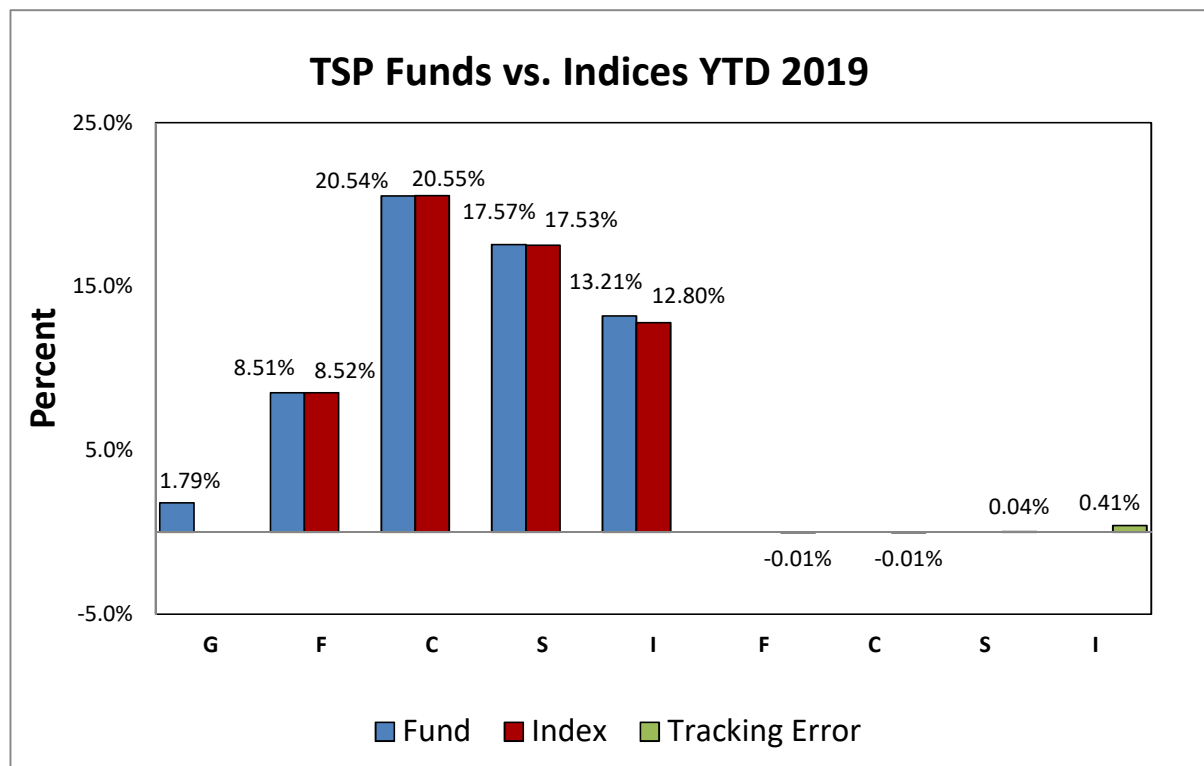
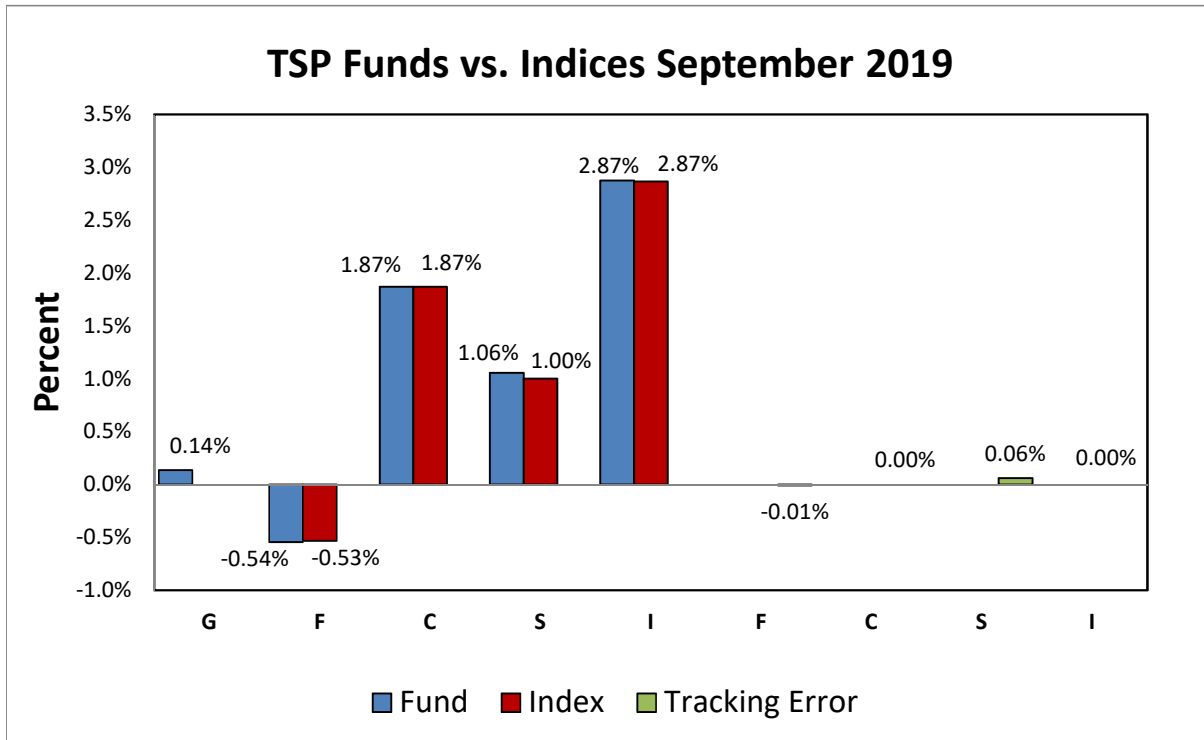
<b>I Fund</b>	-0.94%	6.88%	3.64%	5.24%
MSCI EAFE (Net) Index	-1.34%	6.48%	3.27%	4.90%
Tracking Error	0.40%	0.40%	0.37%	0.34%

### Lifecycle Funds Returns

L Income	3.02%	4.31%	3.75%	4.26%
L 2020	2.71%	5.76%	4.88%	6.76%
L 2030	2.54%	7.84%	6.34%	8.28%
L 2040	2.33%	8.74%	6.97%	9.16%
L 2050	2.04%	9.55%	7.49%	N/A

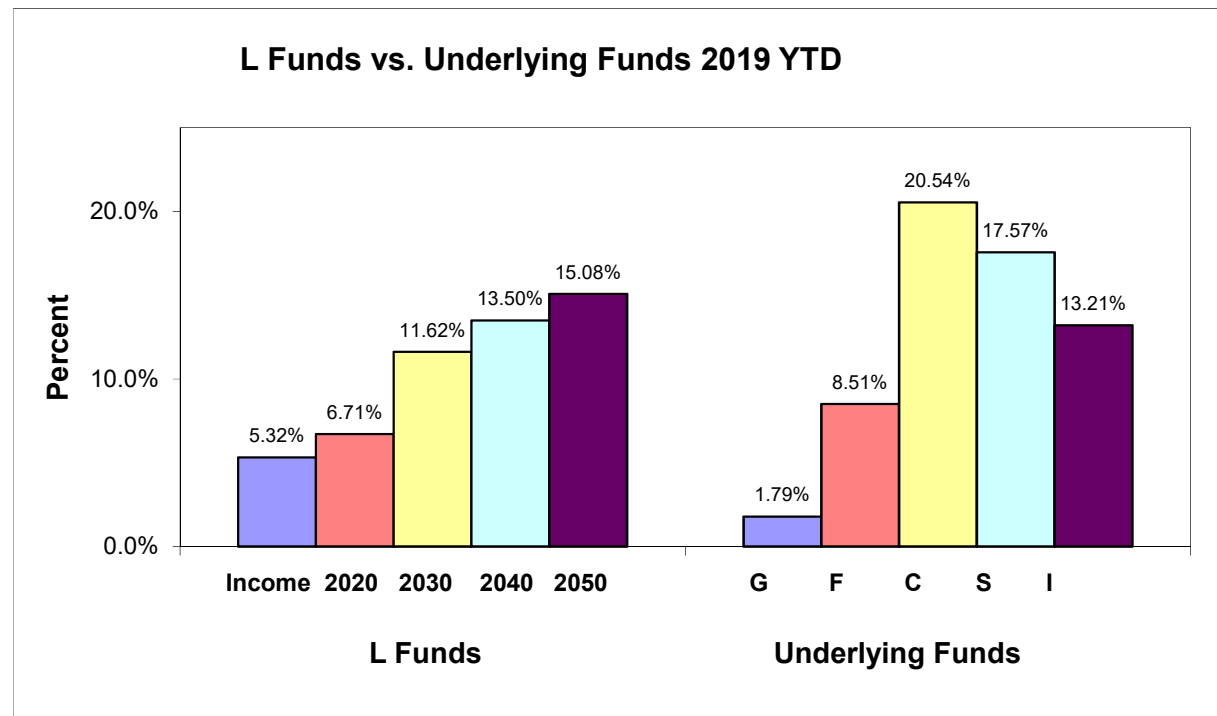
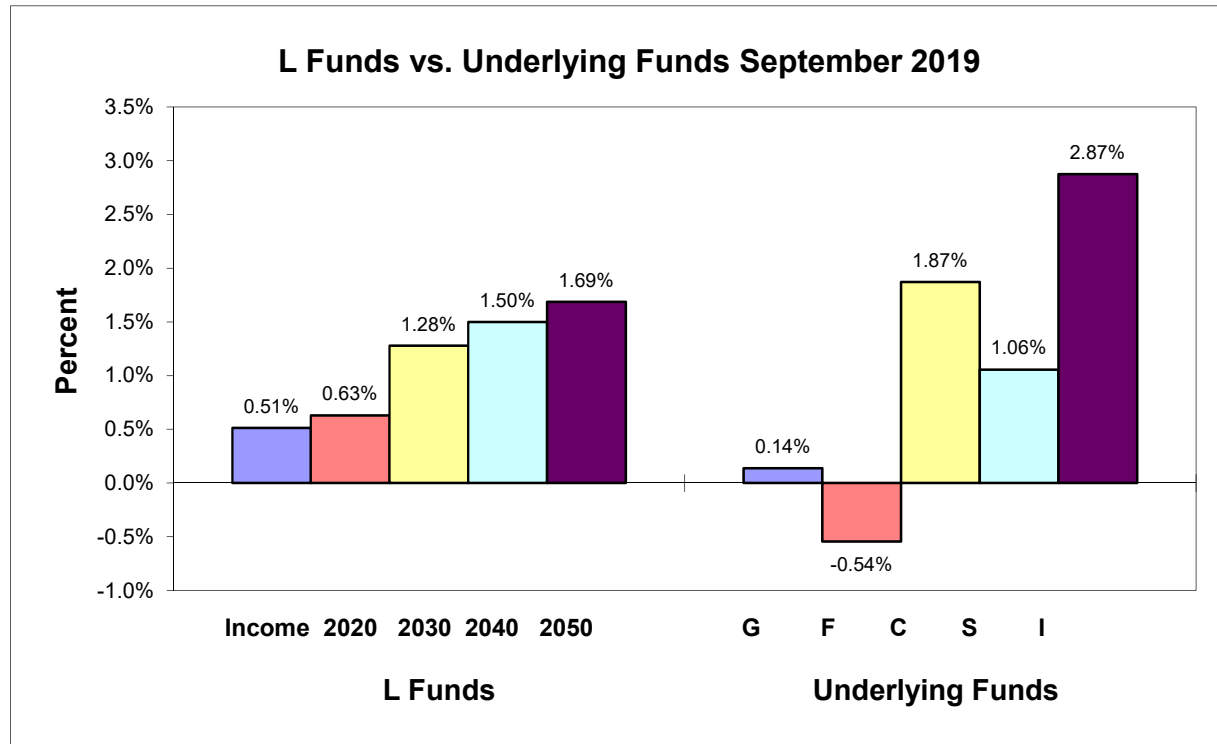
## Performance of TSP Funds

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



## 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 -- SECOND QUARTER 2019**

An audit of BTC's proxy voting conducted by ISS found no exceptions to BTC's established guidelines during the second quarter of 2019. A copy of the audit report is provided in this report as Attachment 2. The ISS audit report for the third quarter of 2019 is not yet available.

## **CLASS ACTION SETTLEMENTS -- SECOND QUARTER 2019**

The Second Quarter began with sixty-one open claims. One claim was opened in the C Fund and nine claims were opened in the S Fund during the quarter. For the C Fund one claim was closed due to Administrator action. For the S Fund, three claims were closed due to Administrator action and three claims were settled for \$236,218. Sixty-four claims remained open across the four funds at the end of the quarter. For the year, six claims were settled for \$440,391.

	<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 2019 (\$)</u>
F Fund	18	-	-	18	\$0
C Fund	9	1	1	9	\$0
S Fund	34	9	6	37	\$440,391
I Fund	-	-	-	-	\$0
<b>Total</b>	<u>61</u>	<u>10</u>	<u>7</u>	<u>64</u>	<u>\$440,391</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

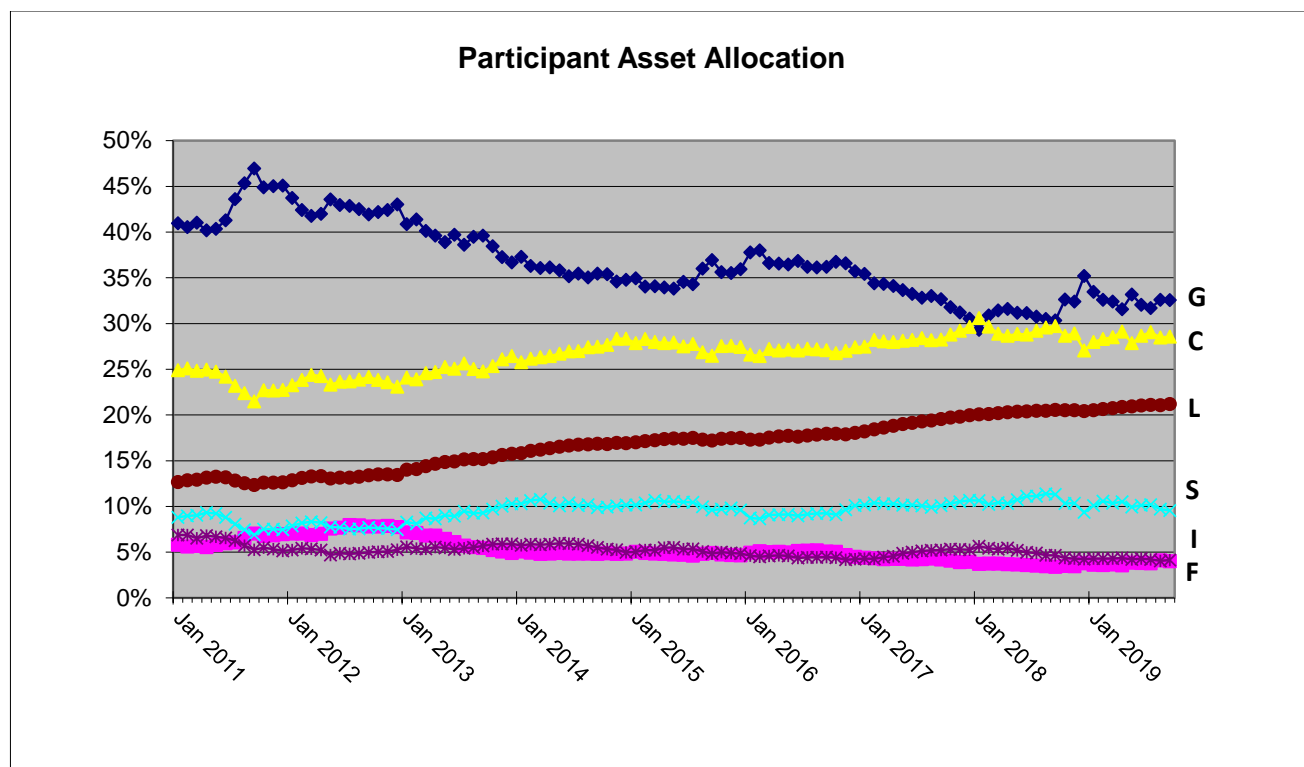
WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund and the International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

# THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY SEPTEMBER 2019

Attachment 1



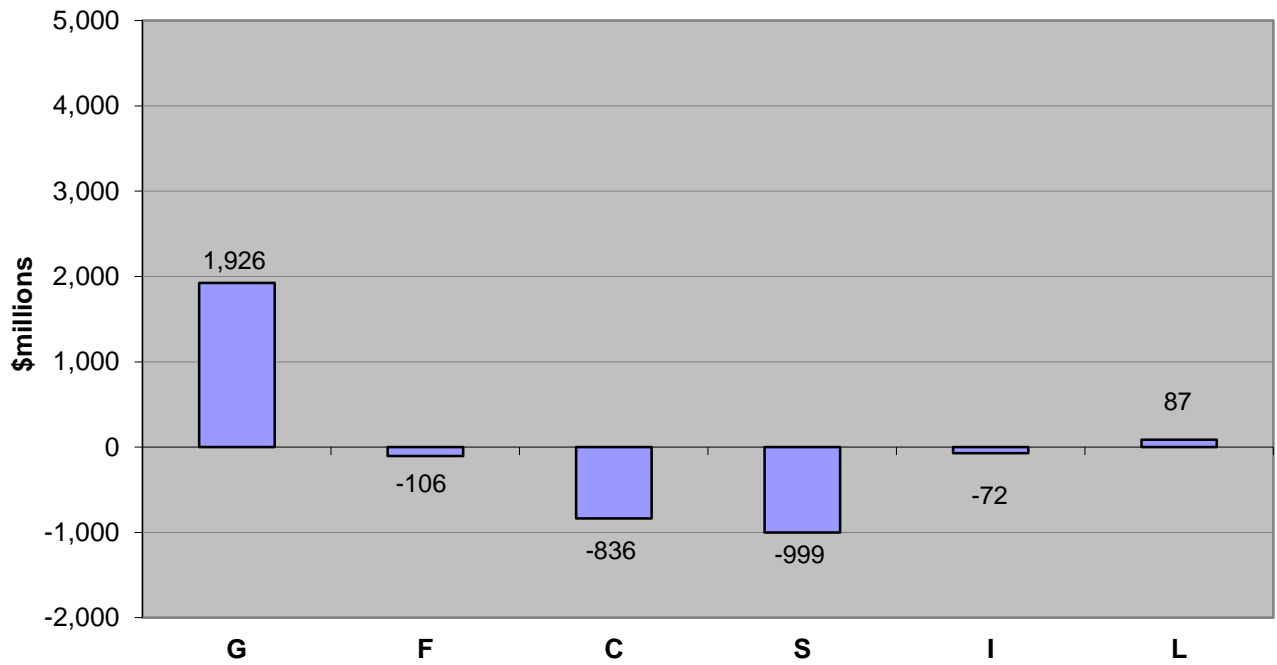
TSP Assets -- Participant Allocation (September 30, 2019)		
<u>Fund</u>	<u>Assets (Billion USD)</u>	<u>Percent</u>
<b>G Fund</b>	\$196.0	32.6%
<b>F Fund</b>	\$24.2	4.0%
<b>C Fund</b>	\$171.5	28.5%
<b>S Fund</b>	\$57.3	9.5%
<b>I Fund</b>	\$24.7	4.1%
<b>L Funds</b>	<u>\$127.3</u>	<u>21.2%</u>
<b>Total</b>	\$601.0	100%

TSP Assets -- By Core Funds (September 30, 2019)		
<u>Fund</u>	<u>Assets (Billion USD)</u>	<u>Percent</u>
<b>G Fund</b>	\$243.4	40.5%
<b>F Fund</b>	\$33.0	5.5%
<b>C Fund</b>	\$207.4	34.5%
<b>S Fund</b>	\$67.8	11.3%
<b>I Fund</b>	<u>\$49.5</u>	<u>8.2%</u>
<b>Total</b>	\$601.0	100%

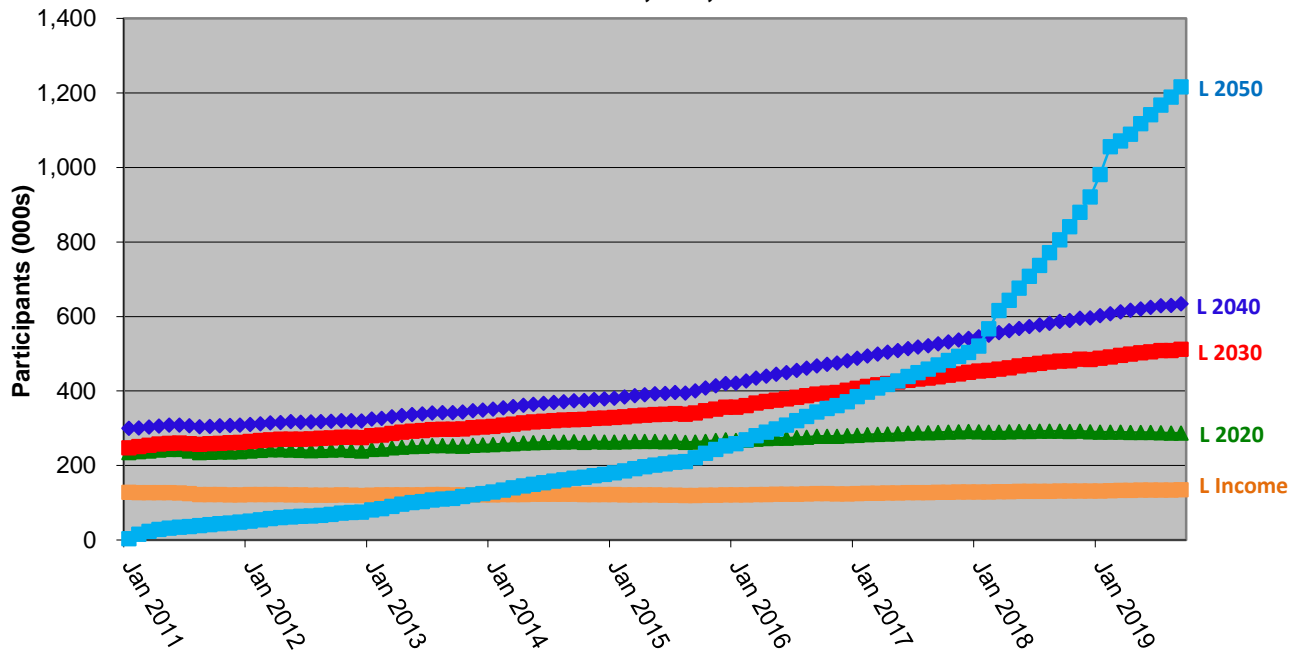
Components may not sum to totals because of rounding.

**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY  
SEPTEMBER 2019**

**Interfund Transfers September 2019**



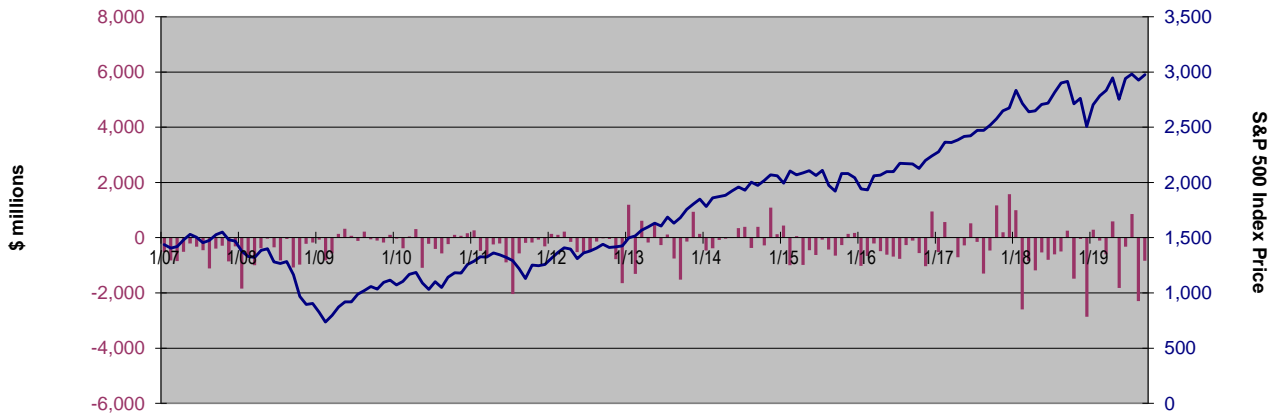
**Number of L Fund Participants  
Total = 2,399,214**



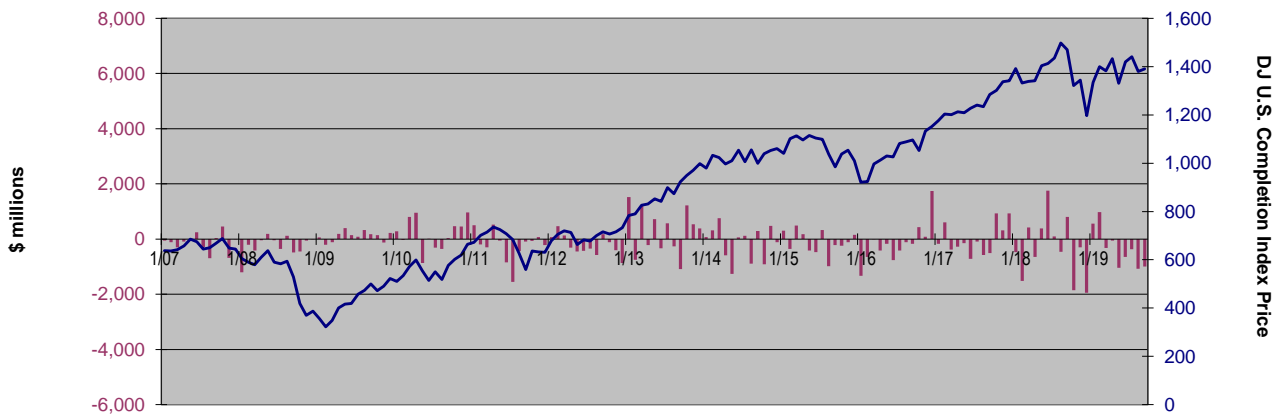


**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY  
SEPTEMBER 2019**

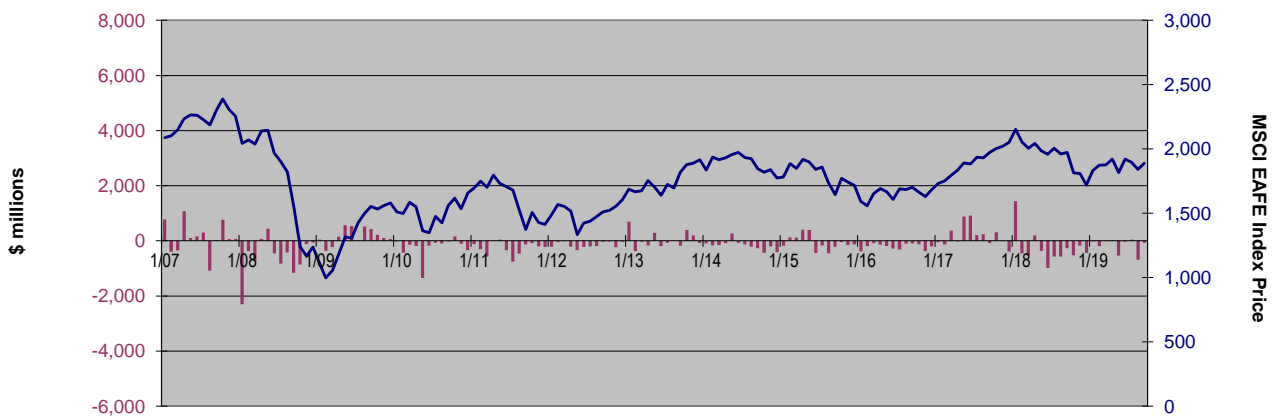
**Monthly Interfund Transfers  
C Fund**



**Monthly Interfund Transfers  
S Fund**

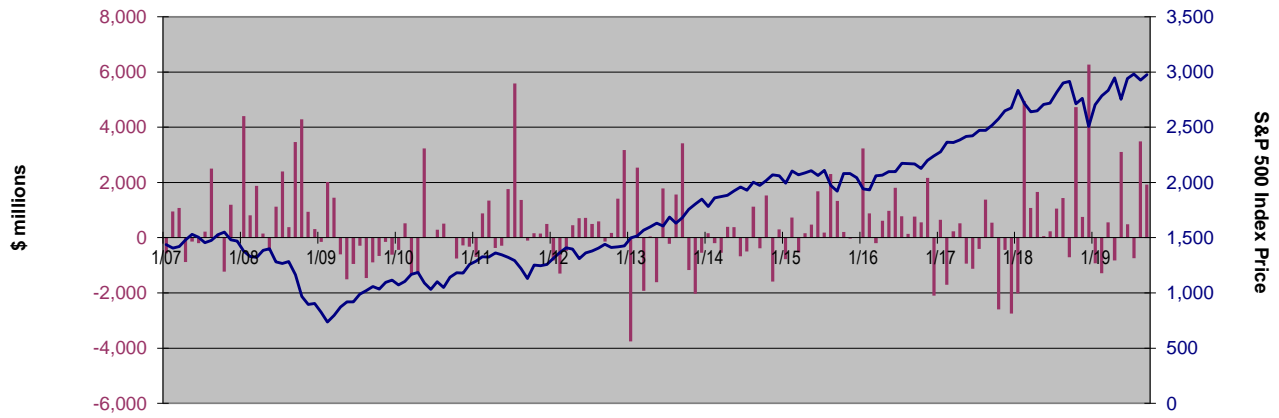


**Monthly Interfund Transfers  
I Fund**

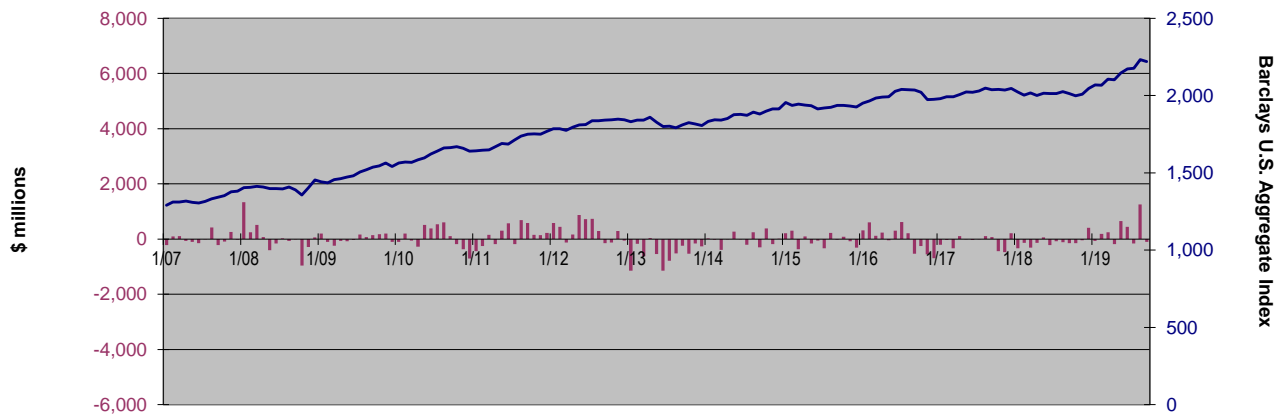


**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY  
SEPTEMBER 2019**

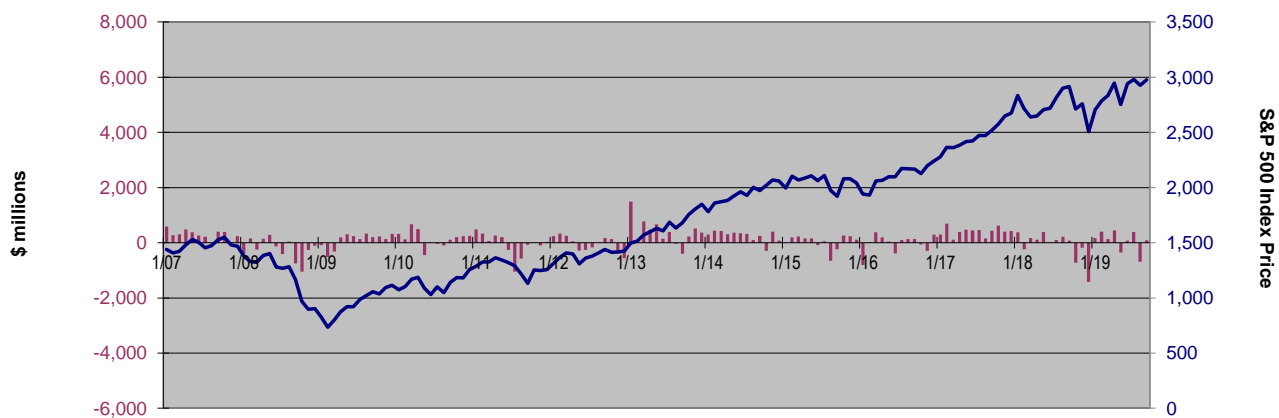
**Monthly Interfund Transfers  
G Fund**



**Monthly Interfund Transfers  
F Fund**



**Monthly Interfund Transfers  
L Funds**





July 19, 2019

Ms. Michelle Edkins  
Managing Director  
Corporate Governance & Responsible Investment  
BlackRock  
55 East 52<sup>nd</sup> St  
New York, NY 10055

Dear Michelle,

Enclosed are the results of our review of US proxy votes by BlackRock for the 2<sup>nd</sup> quarter of 2019. Our review found that there were no exceptions to policy over this period.

Best regards,

A handwritten signature in black ink that reads "Fassil G. Michael". The signature is fluid and cursive, with the first name "Fassil" being more prominent.

Fassil G. Michael  
Executive Director, Head of Custom Research

## MEMORANDUM

The results of our review of BlackRock's 2<sup>nd</sup> quarter proxy voting for US meetings are as follows:

- Votes at 279 meetings were examined.
- Votes at 145 of the 279 meetings were for directors, auditors, and/or management say-on-pay (MSOP) only.
- At the 134 remaining meetings, there were 206 non-director/auditor/MSOP proposals.

The following table illustrates the votes involved by proposal type:

Proposal	Votes
Executive stock plan	65
Non-executive stock plan	5
Employee share purchase plan	13
Section 162(m)	1
Advisory vote on golden parachute compensation	4
Frequency vote on MSOP	40
Reverse stock split	6
Increase authorized common stock	8
Conversion of securities	3
Issue shares for private placement	1
Approve merger agreement	4
Issue shares in connection with merger	1
Sale of assets	1
Adjourn meeting	7
Adopt NOL plan	1
Declassify board of directors	4
Adopt majority voting for uncontested election of directors	1
Provide right to act by written consent	1
Eliminate supermajority vote requirements	9
Change company name	2
Amend articles/bylaws	2
Other business	5
Shareholder proposal	22
<b>Total:</b>	<b>206</b>

- There were 65 votes cast on executive stock plans:
  - a) 57 votes were cast in favor of the plans (87.7 percent);
  - b) 8 votes were cast against the plans (12.3 percent);
    - i.) 2 plans were opposed due to the ability to reprice options without prior shareholder approval and the presence of an evergreen provision;
    - ii.) 3 plans were opposed solely due to the ability to reprice options without prior shareholder approval;
    - iii.) 2 plans were opposed solely due to the presence of an evergreen provision;
    - iv.) 1 plan was opposed as it does not align with performance and peers.
  
- There were 5 votes cast on non-executive stock plans:
  - a) 4 votes were cast in favor of the plans (80 percent);
  - b) 1 vote was cast against the plans due to the ability to reprice options without shareholder approval (20 percent).
  
- There were 13 votes cast on employee share purchase plans; the votes were cast in favor of the plans.
  
- There were 6 votes cast on mergers, acquisitions and/or major corporate transactions, including 1 issuance of shares pursuant to a merger agreement, and 1 sale of company assets; the votes were cast in favor of the transactions.
  
- There were 8 votes cast on increases in authorized common stock; the votes were cast in favor of the increases.
  
- There were 22 votes cast on shareholder proposals which included:
  - a) 1 shareholder proposal to declassify the board; the vote was cast in favor of the proposal.
  - b) 4 shareholder proposals to require independent board chairman; the votes were cast against the proposals.
  - c) 2 shareholder proposals to require majority vote for the election of directors; the votes were cast in favor of the proposals.
  - d) 1 shareholder proposal to disclose board diversity and qualifications; the vote was cast against the proposal.
  - e) 3 shareholder proposals to provide right to act by written consent:
    - i.) 1 vote was cast in favor of the proposals (33.3 percent);
    - ii.) 2 votes were cast against the proposals (66.7 percent).
  - f) 1 shareholder proposal to amend proxy access right; the vote was cast against the proposal.
  - g) 2 shareholder proposals to adopt simple majority vote; the votes were cast in favor of the proposals.
  - h) 1 shareholder proposal to eliminate supermajority vote requirement; the vote was cast in favor of the proposal.
  - i) 1 shareholder proposal to report on human rights policy implementation; the vote was cast in favor of the proposal.
  - j) 1 shareholder proposal to report on lobbying payments; the vote was cast against the proposal.
  - k) 1 shareholder proposal to report on political contributions; the vote was cast against the proposal.
  - l) 1 shareholder proposal to report on corporate tax savings; the vote was cast against the proposal.
  - m) 1 shareholder proposal to report on content enforcement policies; the vote was cast against the proposal.
  - n) 1 shareholder proposal to report on integrating risks related to drug pricing into senior executive compensation; the vote was cast against the proposal.
  - o) 1 shareholder proposal to report on cost and benefits of environment-related activities; the vote was cast against the proposal.

- There were 220 votes cast on management advisory votes on executive compensation:
  - a) 213 votes were cast in favor of the advisory votes (96.8 percent);
  - b) 7 votes were cast against the advisory votes (3.2 percent)
  
- There were 4 votes cast on management advisory votes on golden parachute compensation; the votes were cast in favor of the advisory votes.

There were no exceptions to policy this period.