



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

October 6, 2017

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

FROM: RAVINDRA DEO  
CHIEF INVESTMENT OFFICER

SUBJECT: September 2017 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	-0.47	-0.48	-0.48	0.01	-0.01
Large Cap	2.07	2.06	2.06	0.01	-0.01
<b>Small Mid Cap</b>	<b>4.26</b>	<b>4.26</b>	<b>4.22</b>	<b>0.04</b>	<b>0.00</b>
<b>International</b>	<b>2.52</b>	<b>2.52</b>	<b>2.49</b>	<b>0.03</b>	<b>0.00</b>

***2017 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>3.39</b>	<b>3.36</b>	<b>3.14</b>	<b>0.25</b>	<b>-0.03</b>
Large Cap	14.26	14.24	14.24	0.02	-0.02
Small Mid Cap	<b>12.78</b>	<b>12.76</b>	<b>12.66</b>	<b>0.12</b>	<b>-0.02</b>
<b>International</b>	<b>20.33</b>	<b>20.30</b>	<b>19.96</b>	<b>0.37</b>	<b>-0.03</b>

BlackRock's performance was in-line with the Fixed Income Index for the month and outperformed year-to-date by 25 basis points primarily due to securities lending. For the month, BlackRock outperformed the Small Mid Cap Index by 4 basis points due to securities lending, security selection and futures mis-tracking. Year-to-date, BlackRock outperformed the Small Mid Cap Index by 12 basis points primarily due to securities lending. BlackRock outperformed the International Index by 3 basis points for the month and year-to-date by 37 basis points primarily due to tax advantage. BlackRock's performance for the C Fund was in-line with the Large-Cap index for the month and the year-to-date.

The TSP Funds closely tracked the BTC Accounts for the month and year-to-date.

## 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>
September	482,789,791	17,762	0.4
Year-to-Date	5,780,164,646	150,461	0.3
<u>C Fund</u>			
September	906,206,191	3,876	0.0
Year-to-Date	12,664,743,439	(215,010)	-0.2
<u>S Fund</u>			
September	888,109,451	219,336	2.5
Year-to-Date	14,771,982,063	(2,031,385)	-1.4
<u>I Fund</u>			
September	896,620,874	739,745	8.3
Year-to-Date	9,102,818,422	2,826,991	3.1

\* -- 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, 2017) Returns

G Fund	Annualized (%)			
	1 Year	3 Year	5 Year	10 Year
	2.23%	2.05%	2.03%	2.44%

<b>F Fund</b>	0.34%	3.04%	2.46%	4.53%
Barclays U.S. Agg Bond Index	0.07%	2.71%	2.06%	4.27%
Tracking Error	0.27%	0.33%	0.40%	0.26%

<b>C Fund</b>	18.62%	10.86%	14.28%	7.49%
S&P 500 Index	18.61%	10.81%	14.22%	7.44%
Tracking Error	0.01%	0.05%	0.06%	0.05%

<b>S Fund</b>	19.15%	10.71%	14.34%	8.48%
DJ U.S. Completion TSM Index	18.91%	10.27%	13.97%	8.27%
Tracking Error	0.24%	0.44%	0.37%	0.21%

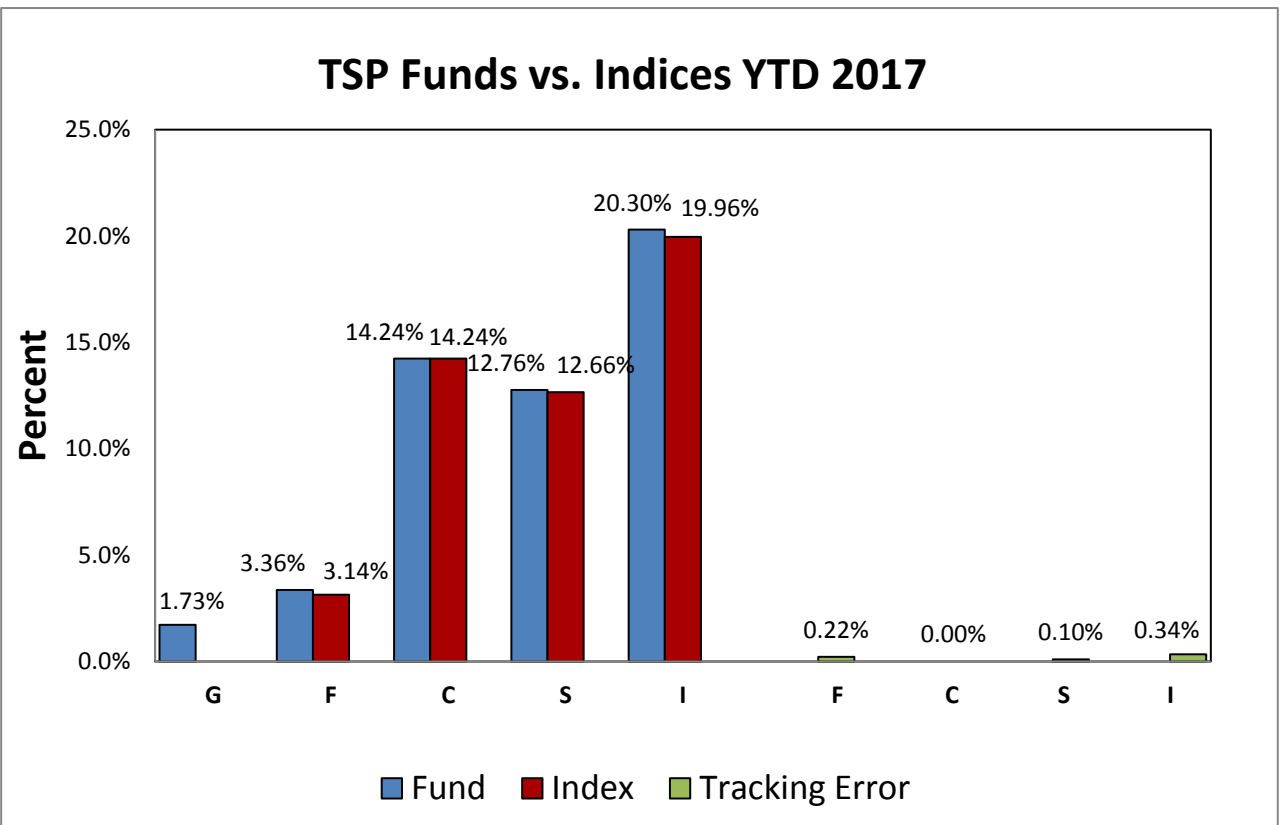
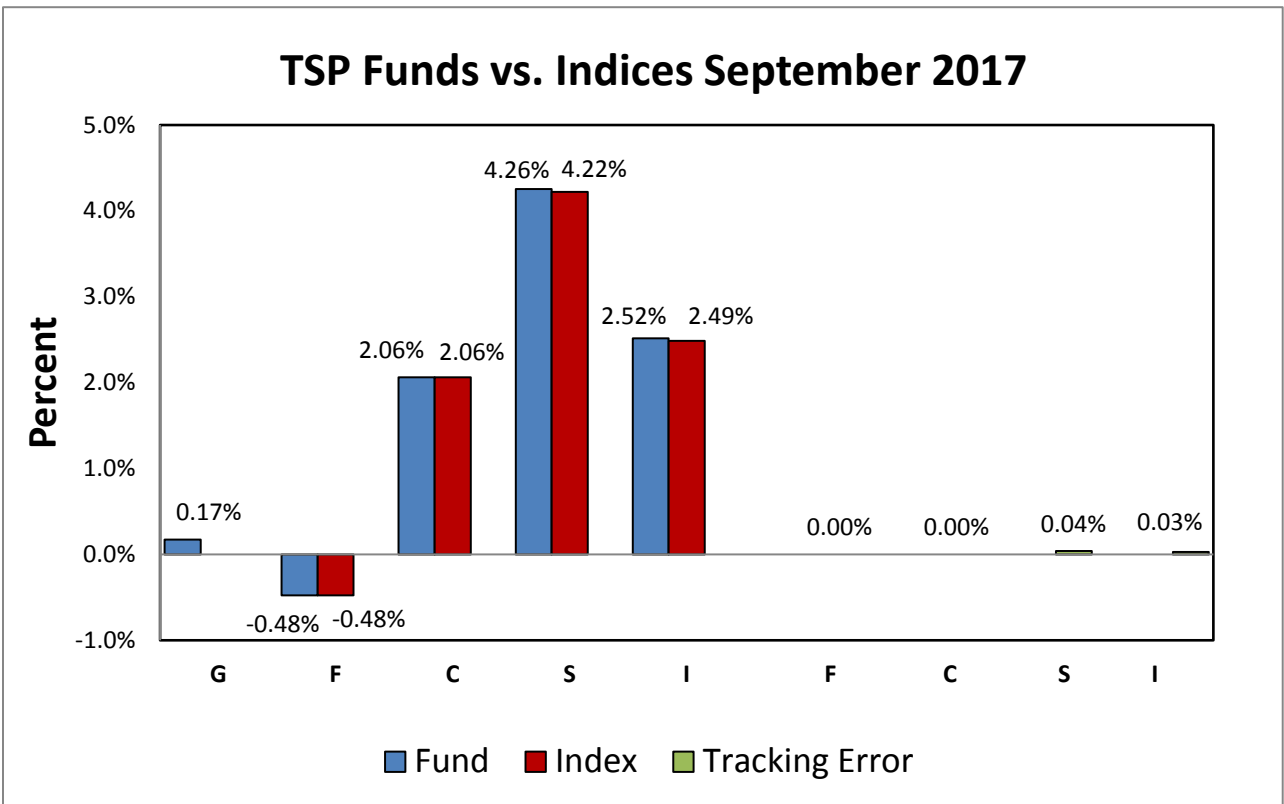
<b>I Fund</b>	19.49%	5.38%	8.72%	1.63%
MSCI EAFE (Net) Index	19.10%	5.04%	8.38%	1.34%
Tracking Error	0.39%	0.34%	0.34%	0.29%

### Lifecycle Funds Returns

L Income	5.32%	3.71%	4.28%	3.68%
L 2020	8.62%	5.23%	7.25%	4.55%
L 2030	12.40%	6.81%	9.10%	5.30%
L 2040	14.27%	7.58%	10.21%	5.62%
L 2050	16.05%	8.20%	11.20%	NA

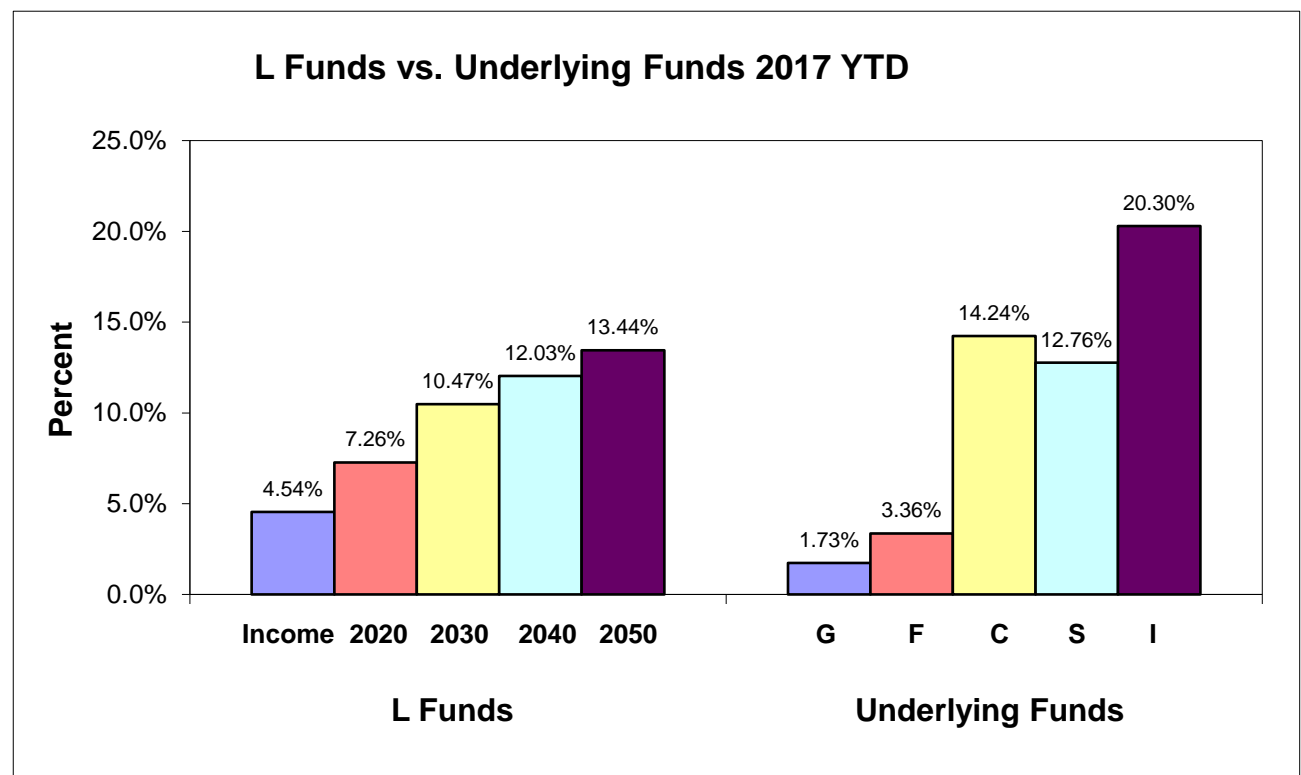
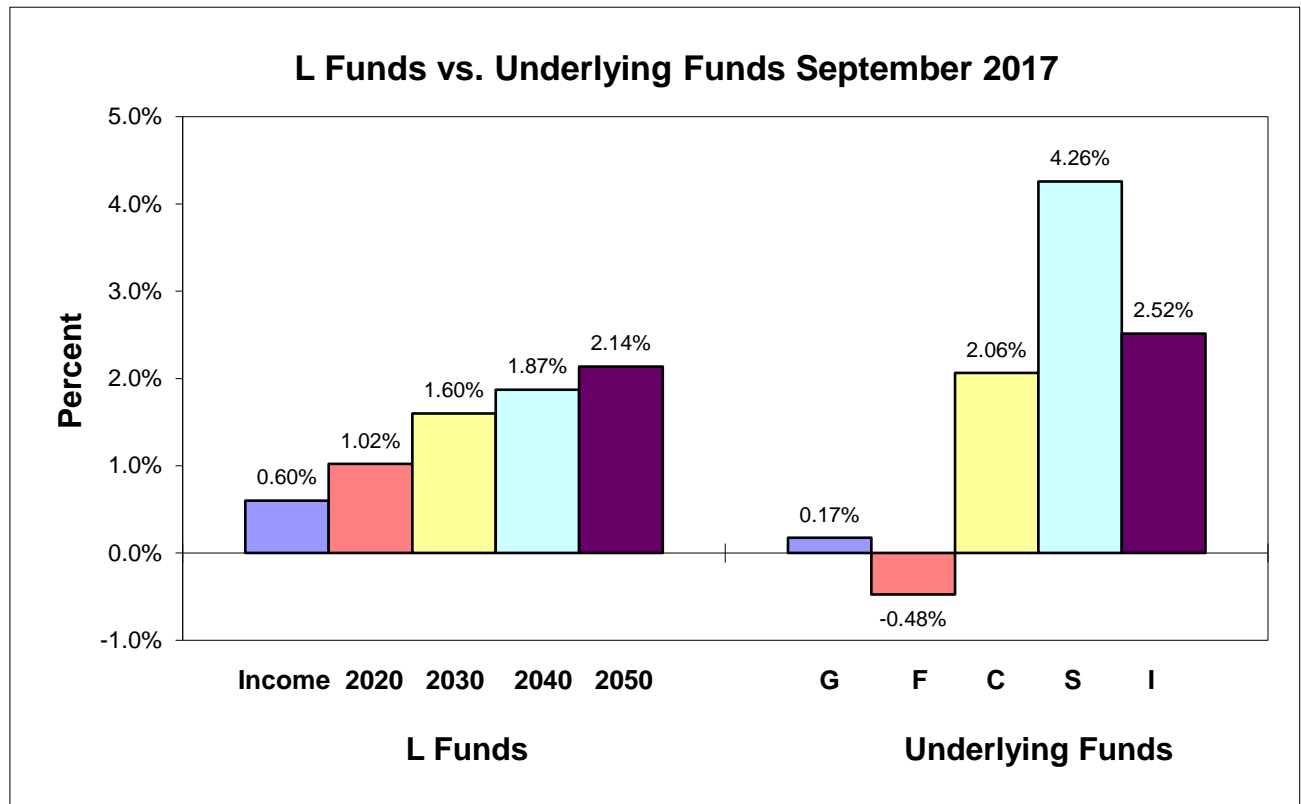
## Performance of TSP Funds Total Returns

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 -- SECOND QUARTER 2017**

An audit of BTC's proxy voting conducted by ISS found one exception in the C fund to BTC's established guidelines during the quarter. The exception did not have any impact on the TSP. A copy of the audit report is provided as Attachment 2. The ISS audit report for the third quarter of 2017 is not yet available.

## **CLASS ACTION SETTLEMENTS -- SECOND QUARTER 2017**

The Second Quarter began with twenty-four open claims. Six claims were opened in the S Fund during the quarter. Four claims in the F Fund were closed due to Administrator action. Two claims in the C Fund were settled. Twenty-four claims remained open across the four funds at the end of the quarter. For the year-to-date in 2017, two claims were settled for \$4,977.

	<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 2017 (\$)</u>
F Fund	4	-	4	-	\$0
C Fund	11	-	2	9	\$4,977
S Fund	9	6	-	15	\$0
I Fund	-	-	-	-	\$0
<b>Total</b>	<b>24</b>	<b>6</b>	<b>6</b>	<b>24</b>	<b>\$4,977</b>

## **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

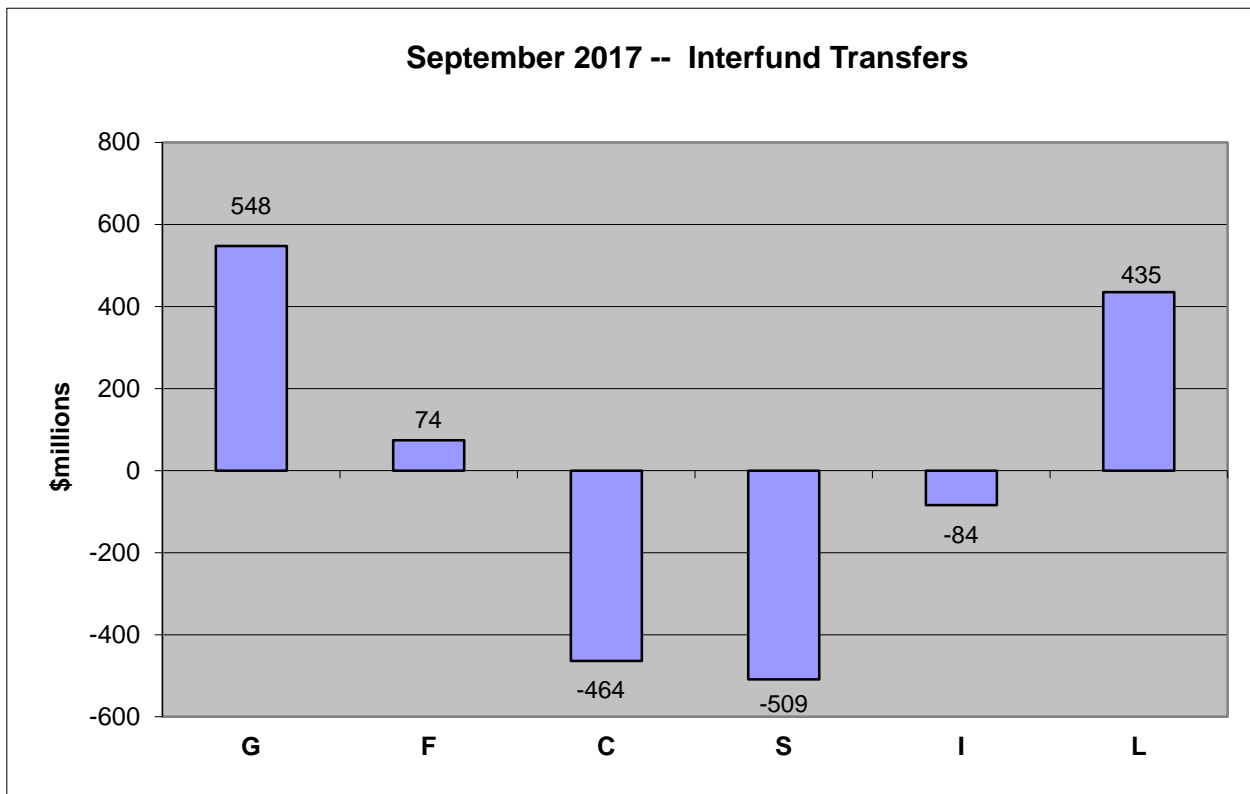
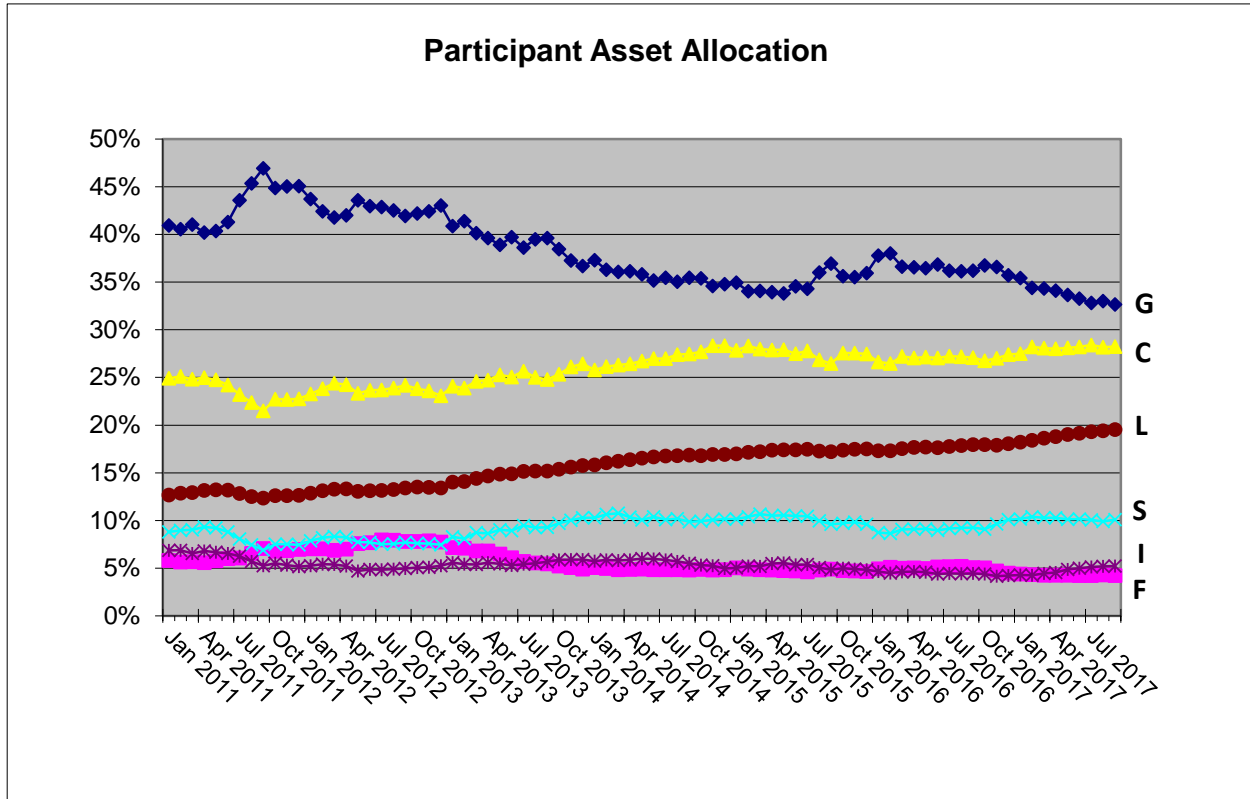
WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

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**  
**September 2017**

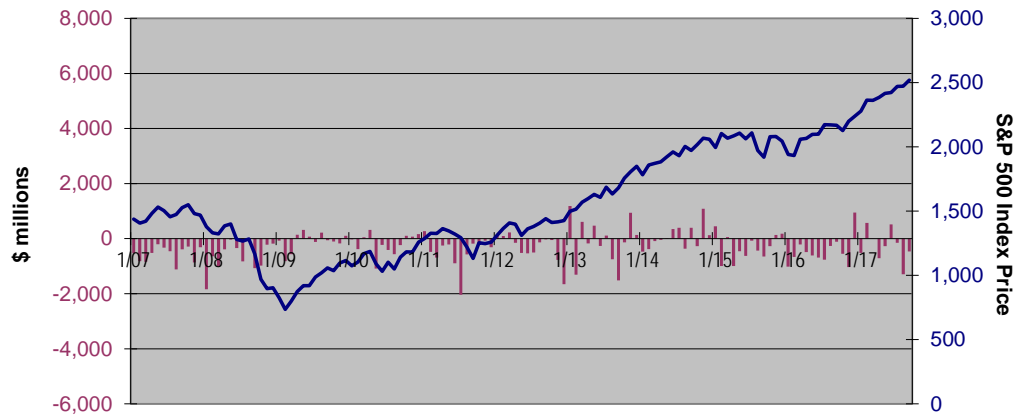
Attachment 1



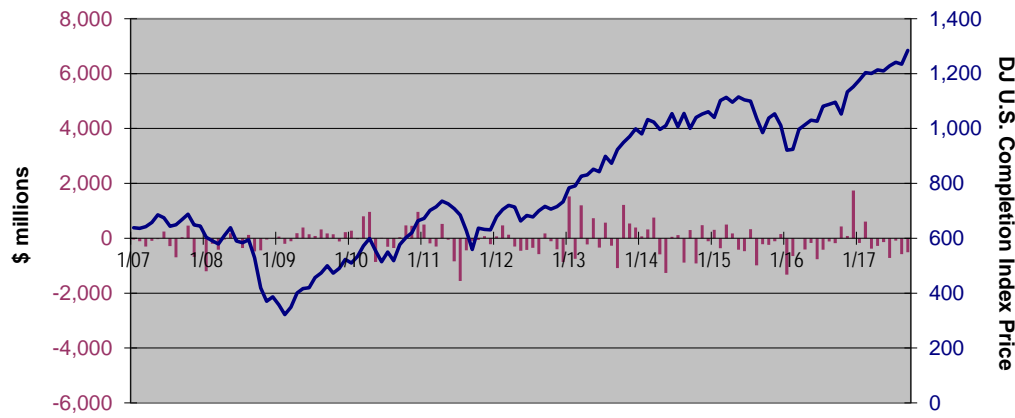
# THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY

## September 2017

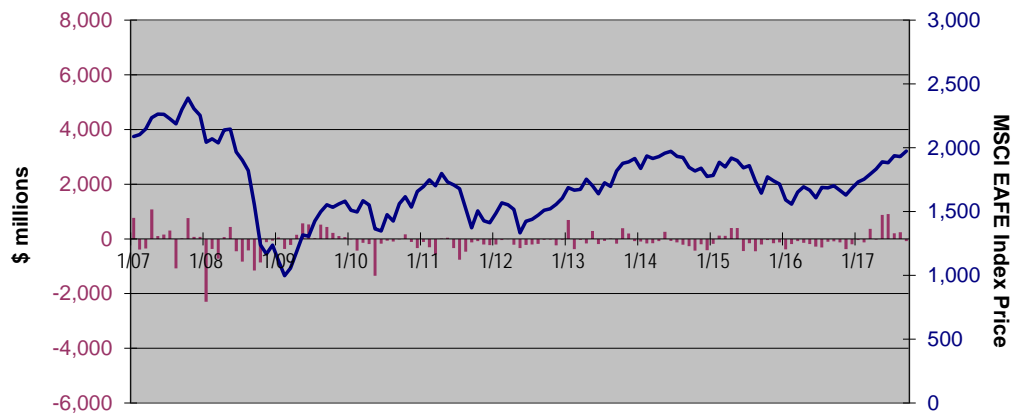
Monthly Interfund Transfers  
C Fund



Monthly Interfund Transfers  
S Fund



Monthly Interfund Transfers  
I Fund

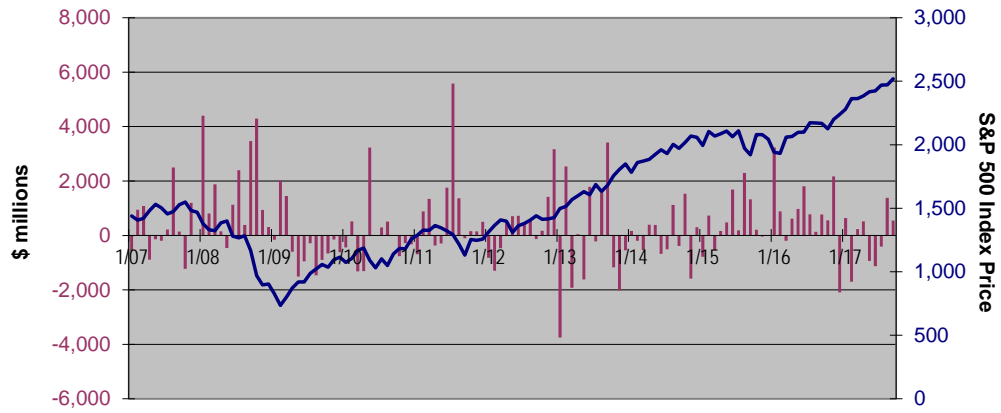




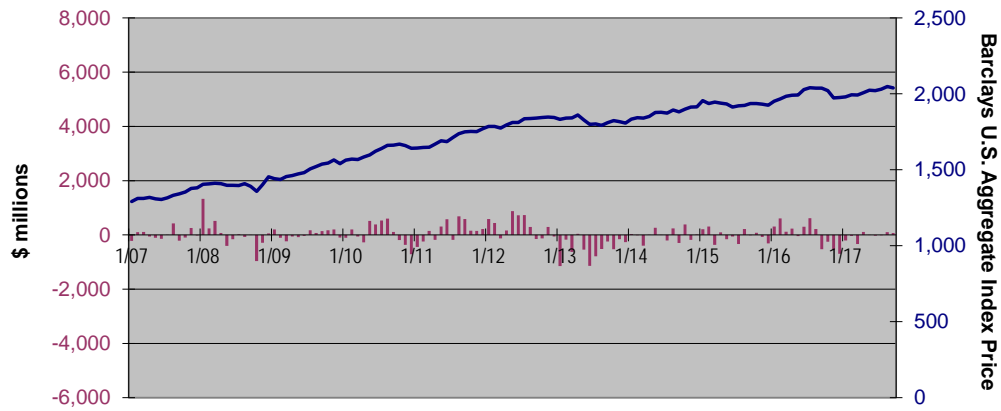
# THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY

## September 2017

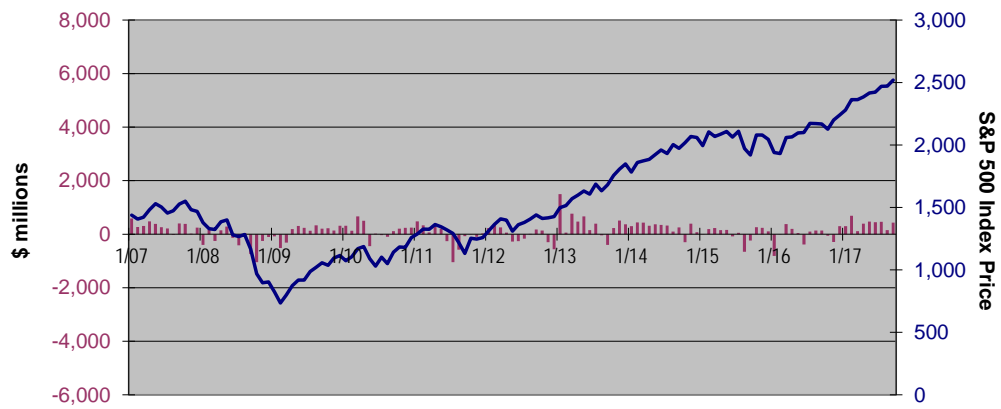
Monthly Interfund Transfers  
G Fund



Monthly Interfund Transfers  
F Fund

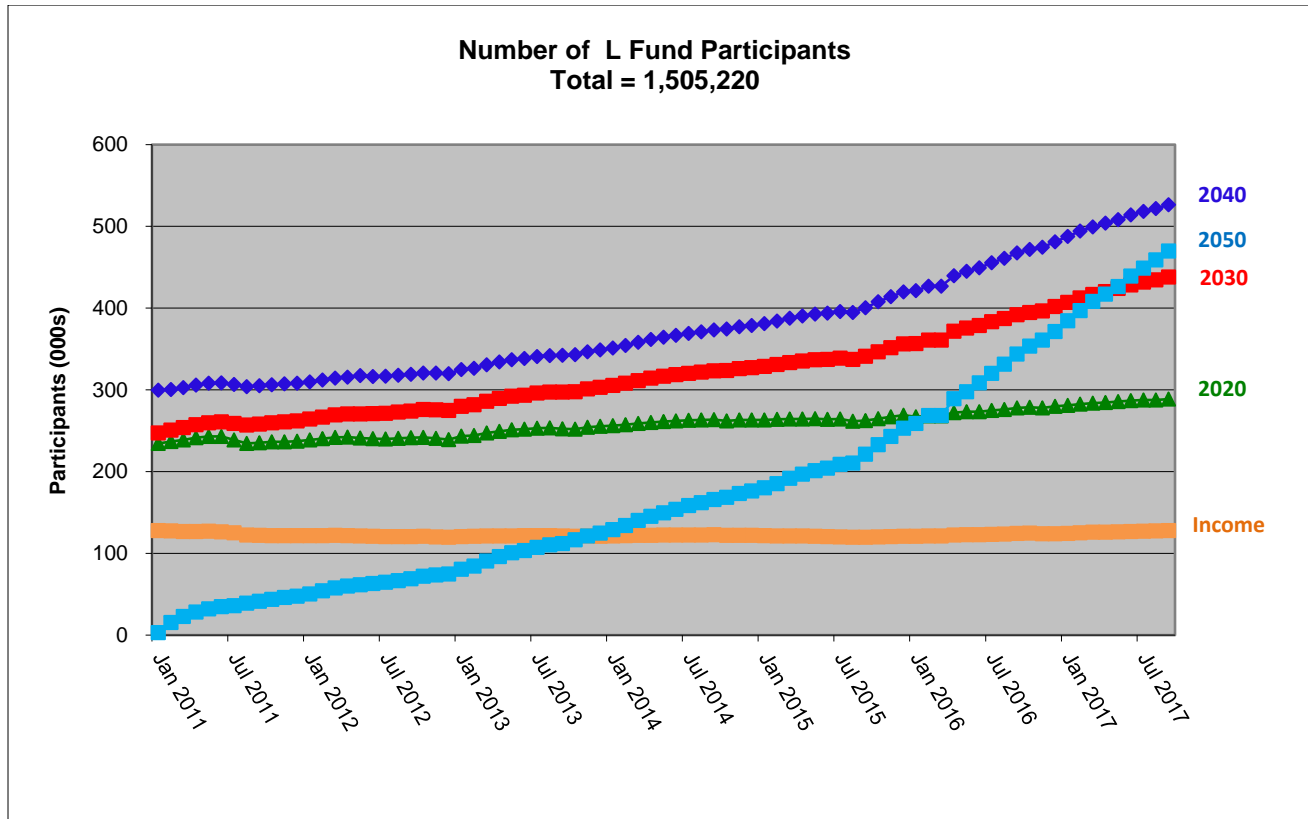


Monthly Interfund Transfers  
L Funds



# THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY

## September 2017





July 25, 2017

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 2<sup>nd</sup> quarter of 2017. Our review found one exception to policy over this period.

Best regards,

A handwritten signature in black ink, appearing to read "Fassil Michael", written in a cursive, flowing style.

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 286 meetings were examined.
- Votes at 66 of the 286 meetings were for directors, auditors, and/or management say-on-pay (MSOP) only.
- At the 220 remaining meetings, there were 353 non-director/auditor/MSOP proposals.

The following table illustrates the votes involved by proposal type:

Proposal	Votes
Executive stock option plan	75
Non-executive stock option plan	3
Employee share purchase plan	12
Section 162(m)	14
Advisory vote on golden parachute compensation	4
Frequency vote on MSOP	175
Increase in common stock	2
Reduce authorized common stock	3
Authorize new class of preferred stock	1
Reduce authorized and preferred stock	1
Issuance of share below net asset value	1
Issuance of shares for private placement	2
Reverse stock split	6
Approve merger agreement	5
Issue shares in connection with acquisition	1
Adjourn meeting	6
Ratify tax preservation plan	1
Approve jurisdiction of incorporation as exclusive forum for certain disputes	1
Establish range for board size	2
Adopt majority voting for uncontested election of directors	3
Reduce supermajority vote requirement	1
Eliminate supermajority vote requirement	3
Provide shareholders and board concurrent power to amend bylaws	1
Amend investment advisory agreement	1
Amend certificate of incorporation	1
Amend charter/bylaws	3
Amend declaration of trust	1
Other business	3
Shareholder proposal	21
<b>Total:</b>	<b>353</b>

- There were 75 votes cast on executive stock option plans:
  - a) 64 votes were cast in favor of the plans (85.3 percent);
  - b) 11 votes were cast against the plans (14.7 percent);
    - i.) 5 plans were opposed solely due to the ability to reprice options without prior shareholder approval;
    - ii.) 2 plans were opposed solely due to the presence of an evergreen provision;
    - iii.) 2 plans were opposed due to the ability to reprice options without prior shareholder approval and the presence of an evergreen provision;
    - iv.) 1 plan was opposed due to aggressive accounting for equity compensation;
    - v.) 1 plan was opposed due to the acceleration of vesting upon change in control.
- There were 3 votes cast on non-executive stock option plans; the votes were cast in favor of the non-executive stock option plans.
- There were 2 votes cast on increases in authorized common stock; the votes were cast in favor of the increases.
- There were 2 votes cast on issuances of shares for private placement; the votes were cast in favor of the issuances.
- There were 6 votes cast on mergers, acquisitions 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 21 votes cast on shareholder proposals which included:
  - a) 1 shareholder proposal to require independent board chairman; the vote was cast against the proposal.
  - b) 1 shareholder proposal to require majority vote for the election of directors; the vote was cast in favor of the proposal.
  - c) 1 shareholder proposal to provide proxy access; the vote was cast in favor of the proposal.
  - d) 1 shareholder proposal to amend proxy access right; the vote was cast against the proposal.
  - e) 1 shareholder proposal to provide right to act by written consent; the vote was cast against the proposal.
  - f) 2 shareholder proposals to report on lobbying contributions; the votes were cast against the proposals.
  - g) 1 shareholder proposal to report on political contributions; the vote was cast against the proposal.
  - h) 1 shareholder proposal to cease charitable contributions; the vote was cast against the proposal.
  - i) 2 shareholder proposals to reduce ownership threshold to call special meeting; the votes were cast against the proposals.
  - j) 1 shareholder proposal to adopt simple majority vote; the vote was cast in favor of the proposal.
  - k) 1 shareholder proposal to reduce supermajority vote requirement; the vote was cast against the proposal.
  - l) 1 shareholder proposal to provide confidential running vote tallies on executive compensation matters; the vote was cast against the proposal.
  - m) 1 shareholder proposal to report on executive compensation incentives aligned with low carbon scenarios; the vote was cast against the proposal.
  - n) 1 shareholder proposal to report on human rights review on high-risk regions; the vote was cast against the proposal.
  - o) 1 shareholder proposal to adopt policy and plan to eliminate deforestation in supply chain; the vote was cast against the proposal.
  - p) 1 shareholder proposal to review public policy advocacy on climate change; the vote was cast against the proposal.
  - q) 1 shareholder proposal to annually assess portfolio impact of policies to meet 2 degree scenario; the vote was cast against the proposal.
  - r) 1 shareholder proposal to adopt guidelines on country selection; the vote was cast against the proposal.
  - s) 1 shareholder proposal to report on using oil and gas reserve metrics for named executive's compensation; the vote was cast against the proposal.

- There were 220 votes cast on management advisory votes on executive compensation:
  - a) 212 votes were cast in favor of the advisory votes (96.4 percent);
  - b) 8 votes were cast against the advisory votes (3.6 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 was one exception to policy noted during this period involving a shareholder proposal to reduce supermajority vote requirement.