



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

January 10, 2020

MEMORANDUM FOR BOARD MEMBERS

KENNEDY, BILYEU, McCRAY,
JONES AND JASIEN

FROM: RAVINDRA DEO
EXECUTIVE DIRECTOR

SUBJECT: December 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

| <u>Fund</u> | <u>% BTC Returns</u> | <u>% TSP Returns</u> | <u>% Index Returns</u> | <u>BTC T.E.</u> | <u>TSP vs. BTC</u> |
|--------------------|-----------------------------|-----------------------------|-------------------------------|------------------------|---------------------------|
| Fixed Income | -0.07 | -0.08 | -0.07 | 0.00 | -0.01 |
| Large Cap | 3.02 | 3.01 | 3.02 | 0.00 | -0.01 |
| Small Mid Cap | 2.15 | 2.15 | 2.16 | -0.01 | 0.00 |
| International | 3.25 | 3.24 | 3.25 | 0.00 | -0.01 |

2019 Year-to-Date (YTD) Tracking Error

| <u>Fund</u> | <u>% BTC Returns</u> | <u>% TSP Returns</u> | <u>% Index Returns</u> | <u>BTC T.E.</u> | <u>TSP vs. BTC</u> |
|--------------------|-----------------------------|-----------------------------|-------------------------------|------------------------|---------------------------|
| Fixed Income | 8.72 | 8.68 | 8.72 | 0.00 | -0.04 |
| Large Cap | 31.50 | 31.45 | 31.49 | 0.01 | -0.05 |
| Small Mid Cap | 28.01 | 27.97 | 27.94 | 0.07 | -0.04 |
| International | 22.49 | 22.47 | 22.01 | 0.48 | -0.02 |

BlackRock's performance for the F, C, S, and I Funds was in line with the Funds' respective indices for the month. For calendar year 2019, BlackRock's performance for the F and C Funds was in line with the Funds' respective indices. BlackRock outperformed the Small Mid Cap Index by 7 basis points in 2019, primarily due to securities lending. BlackRock outperformed the International Index by 48 basis points in 2019, primarily due to tax effect.

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 | 750,257,109 | (22,099) | -0.3 |
| Year-to-Date | 10,252,372,908 | 738,912 | 0.7 |
| <u>C Fund</u> | | | |
| December | 2,066,214,904 | (340,929) | -1.7 |
| Year-to-Date | 30,894,222,659 | (4,655,369) | -1.5 |
| <u>S Fund</u> | | | |
| December | 1,586,569,905 | (196,131) | -1.2 |
| Year-to-Date | 18,718,300,040 | (646,463) | -0.3 |
| <u>I Fund</u> | | | |
| December | 1,316,294,682 | 1,309,798 | 10.0 |
| Year-to-Date | 18,742,640,723 | (9,982,045) | -5.3 |

*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 Fund Returns (as of December 31, 2019)

| G Fund | Annualized (%) | | | |
|--------|----------------|--------|--------|---------|
| | 1 Year | 3 Year | 5 Year | 10 Year |
| | 2.24% | 2.49% | 2.27% | 2.23% |

| F Fund | 8.68% | 4.16% | 3.25% | 3.99% |
|--|--------|-------|-------|-------|
| Bloomberg Barclays U.S. Agg Bond Index | 8.72% | 4.03% | 3.05% | 3.75% |
| Tracking Error | -0.04% | 0.13% | 0.20% | 0.24% |

| C Fund | 31.45% | 15.25% | 11.71% | 13.59% |
|----------------|--------|--------|--------|--------|
| S&P 500 Index | 31.49% | 15.27% | 11.70% | 13.56% |
| Tracking Error | -0.04% | -0.02% | 0.01% | 0.03% |

| S Fund | 27.97% | 11.14% | 9.17% | 13.08% |
|------------------------------|--------|--------|-------|--------|
| DJ U.S. Completion TSM Index | 27.94% | 10.97% | 8.84% | 12.72% |
| Tracking Error | 0.03% | 0.17% | 0.33% | 0.36% |

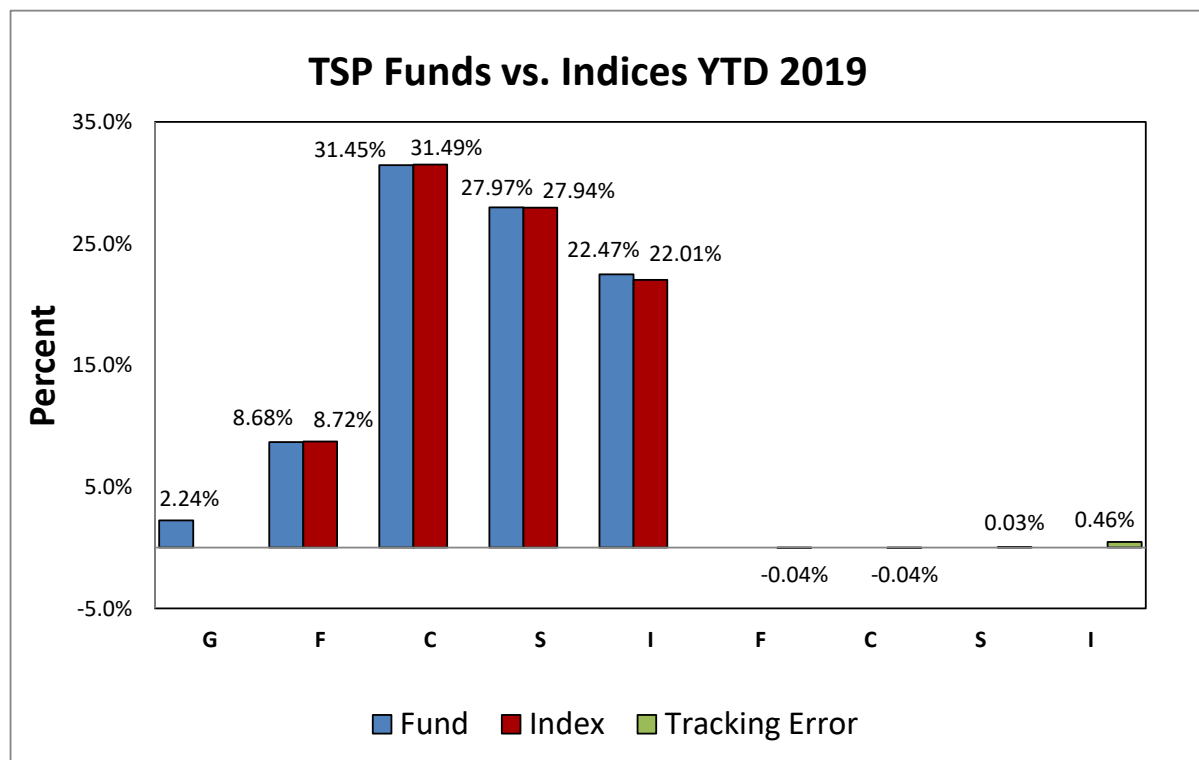
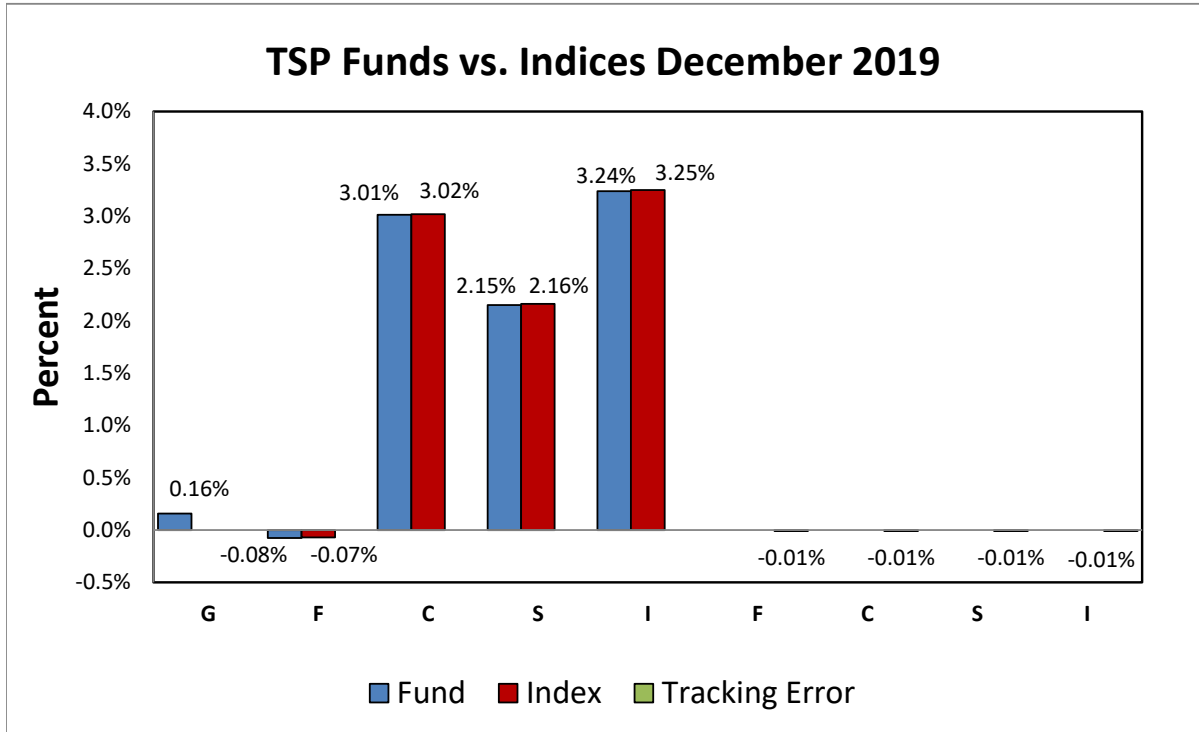
| I Fund | 22.47% | 9.97% | 6.20% | 5.85% |
|-----------------------|--------|-------|-------|-------|
| MSCI EAFE (Net) Index | 22.01% | 9.56% | 5.67% | 5.50% |
| Tracking Error | 0.46% | 0.41% | 0.53% | 0.35% |

Lifecycle Funds Returns

| | | | | |
|----------|--------|--------|-------|-------|
| L Income | 7.60% | 4.79% | 3.96% | 4.32% |
| L 2020 | 9.38% | 6.19% | 5.06% | 6.70% |
| L 2030 | 17.60% | 9.10% | 7.04% | 8.47% |
| L 2040 | 20.69% | 10.26% | 7.82% | 9.41% |
| L 2050 | 23.33% | 11.26% | 8.49% | N/A |

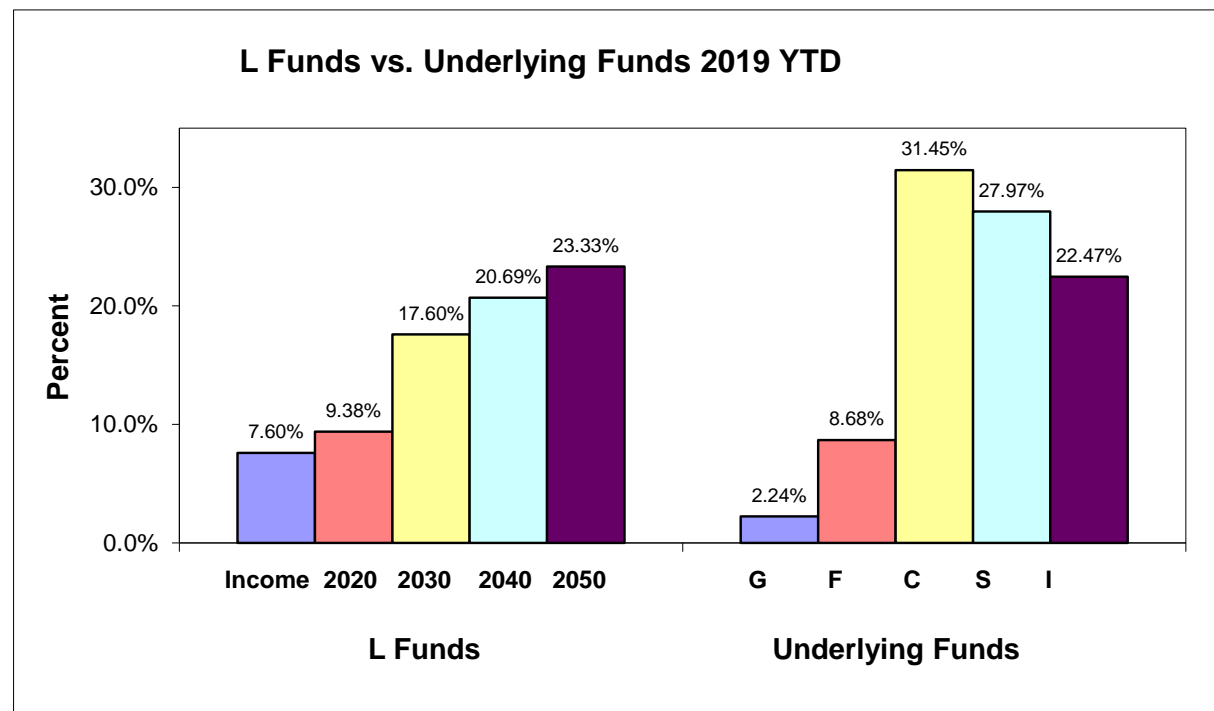
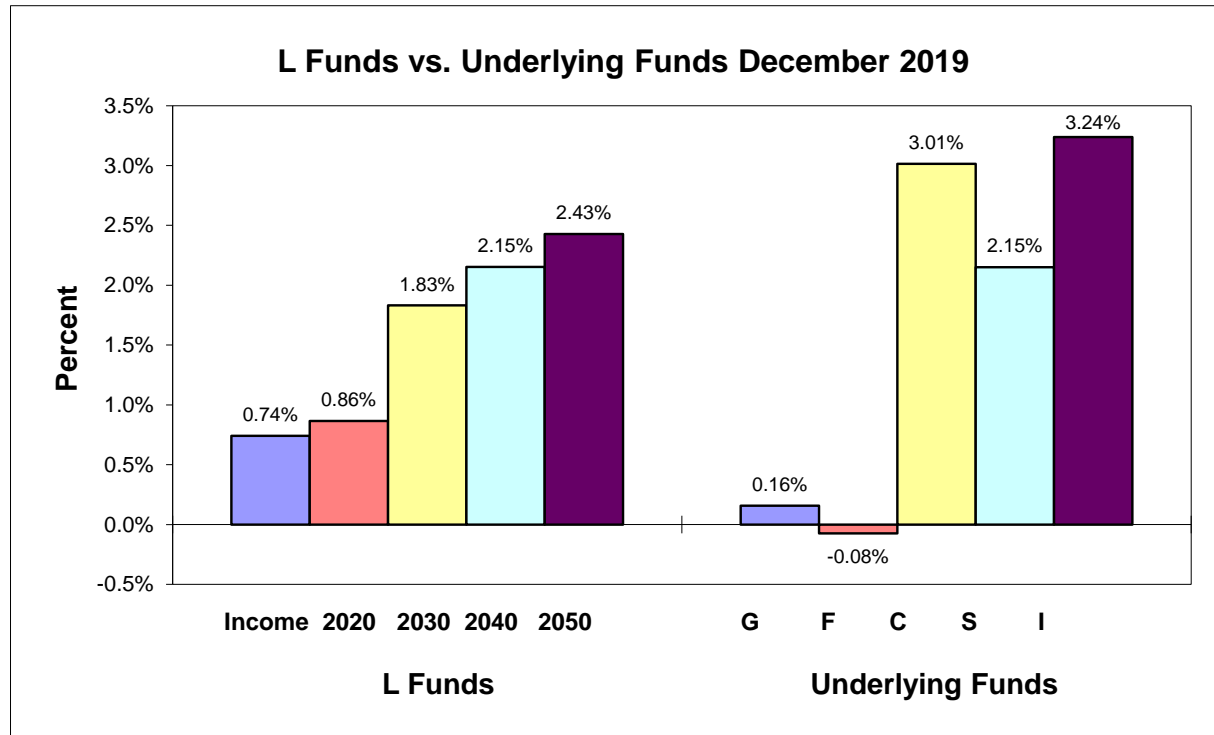
Performance of TSP Funds

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 -- THIRD QUARTER 2019

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

CLASS ACTION SETTLEMENTS -- THIRD QUARTER 2019

The Third Quarter began with sixty-four open claims. One claim was opened in the C Fund, five claims were opened in the S Fund, and two claims were opened in the I Fund during the quarter. For the S Fund, one claim was closed due to Administrator action and two claims were settled for \$1,583,657. Sixty-nine claims remained open across the four funds at the end of the quarter. For the year, eight claims were settled for \$2,024,048.

| | <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 | - | 10 | \$0 |
| S Fund | 37 | 5 | 3 | 39 | \$2,024,048 |
| I Fund | - | 2 | - | 2 | \$0 |
| Total | <u>64</u> | <u>8</u> | <u>3</u> | <u>69</u> | <u>\$2,024,048</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

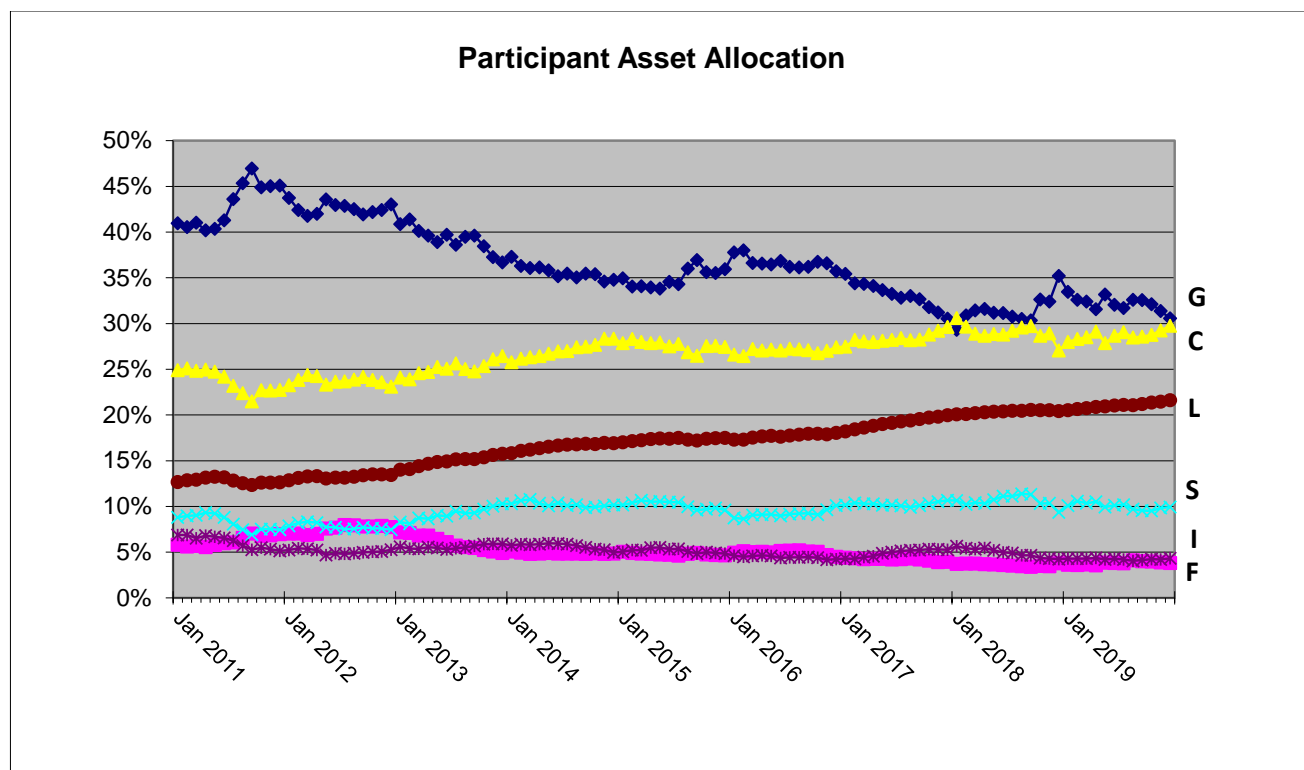
WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund and the International 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
DECEMBER 2019**

Attachment 1



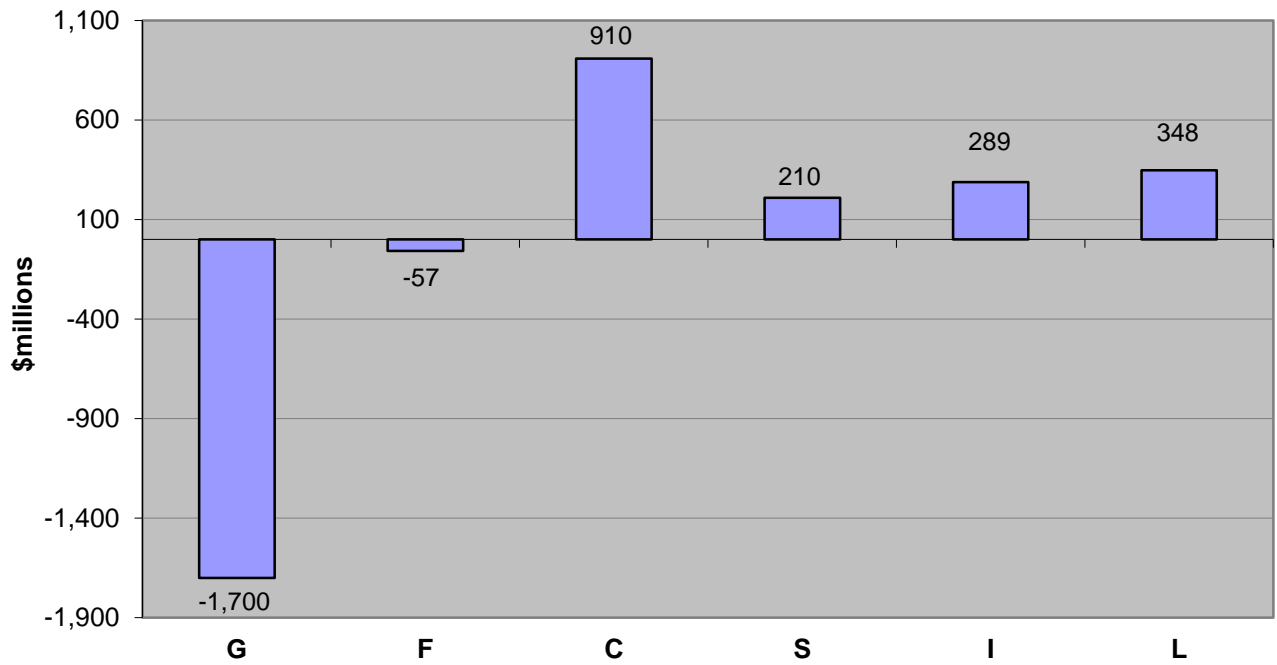
| TSP Assets -- Participant Allocation (December 31, 2019) | | |
|---|---------------------------------|----------------|
| <u>Fund</u> | <u>Assets (Billion USD)</u> | <u>Percent</u> |
| G Fund | \$193.9 | 30.7% |
| F Fund | \$24.0 | 3.8% |
| C Fund | \$188.1 | 29.7% |
| S Fund | \$62.7 | 9.9% |
| I Fund | \$27.3 | 4.3% |
| L Funds | <u>\$136.5</u> | <u>21.6%</u> |
| Total | \$632.6 | 100% |

| TSP Assets -- By Core Funds (December 31, 2019) | | |
|--|---------------------------------|----------------|
| <u>Fund</u> | <u>Assets (Billion USD)</u> | <u>Percent</u> |
| G Fund | \$243.8 | 38.5% |
| F Fund | \$33.5 | 5.3% |
| C Fund | \$226.9 | 35.9% |
| S Fund | \$74.1 | 11.7% |
| I Fund | <u>\$54.3</u> | <u>8.6%</u> |
| Total | \$632.6 | 100% |

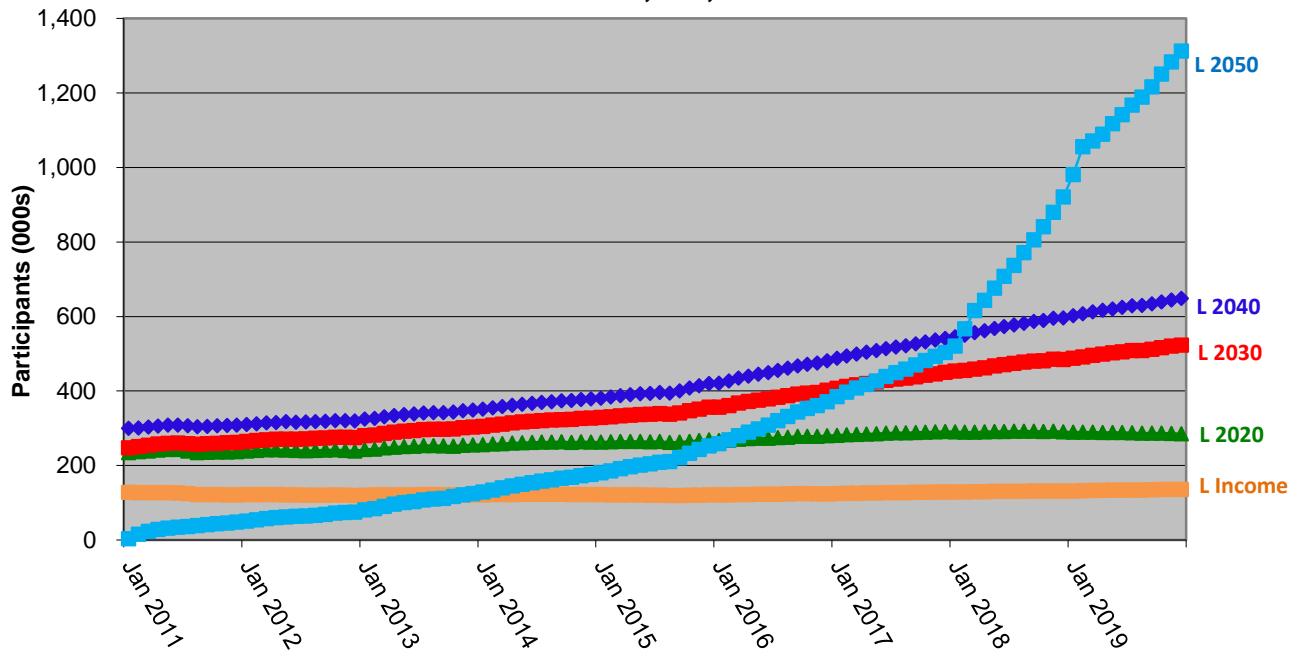
Components may not sum to totals because of rounding.

THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY DECEMBER 2019

Interfund Transfers December 2019

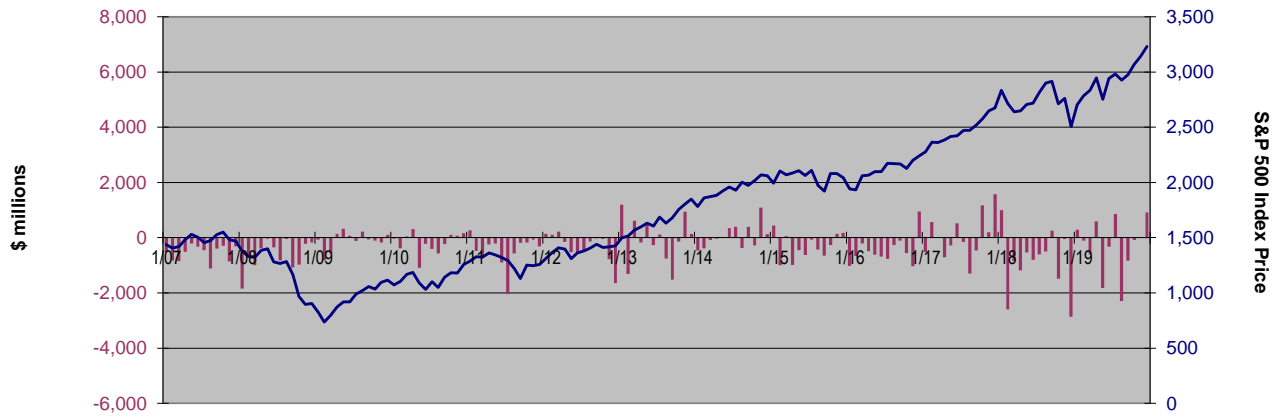


Number of L Fund Participants Total = 2,513,623

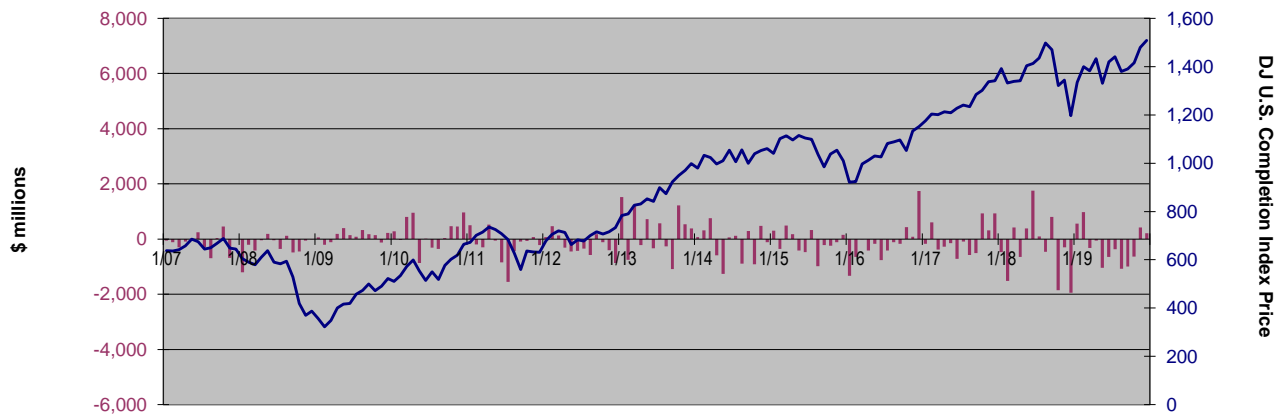


**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY
DECEMBER 2019**

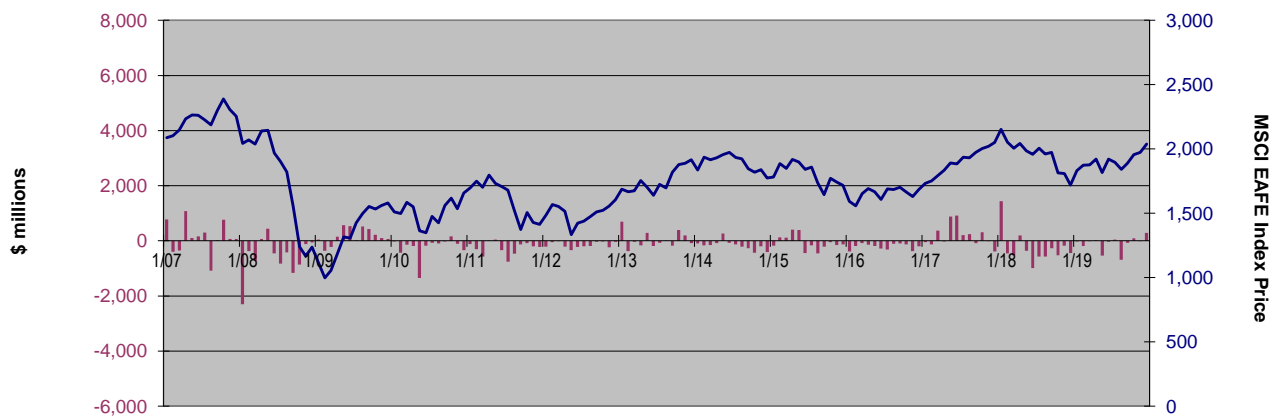
**Monthly Interfund Transfers
C Fund**



**Monthly Interfund Transfers
S Fund**

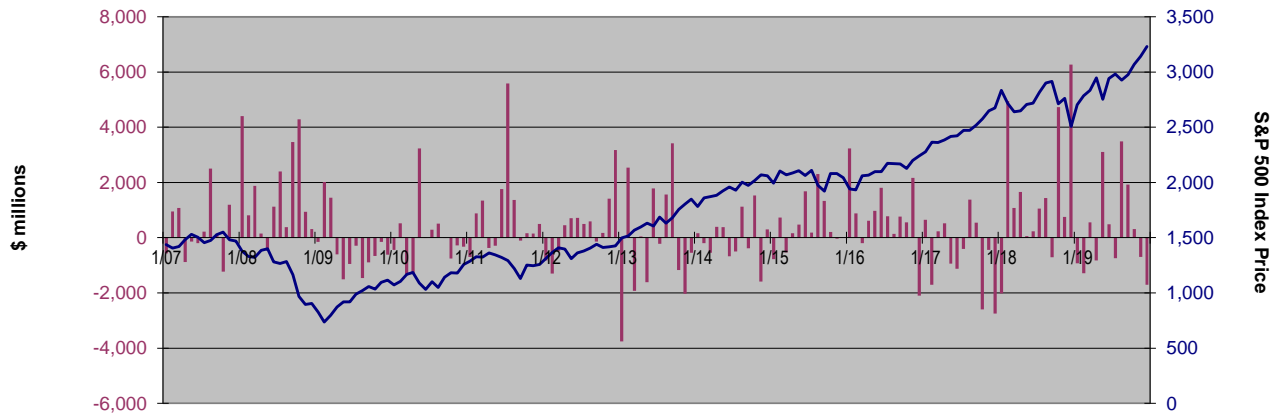


**Monthly Interfund Transfers
I Fund**

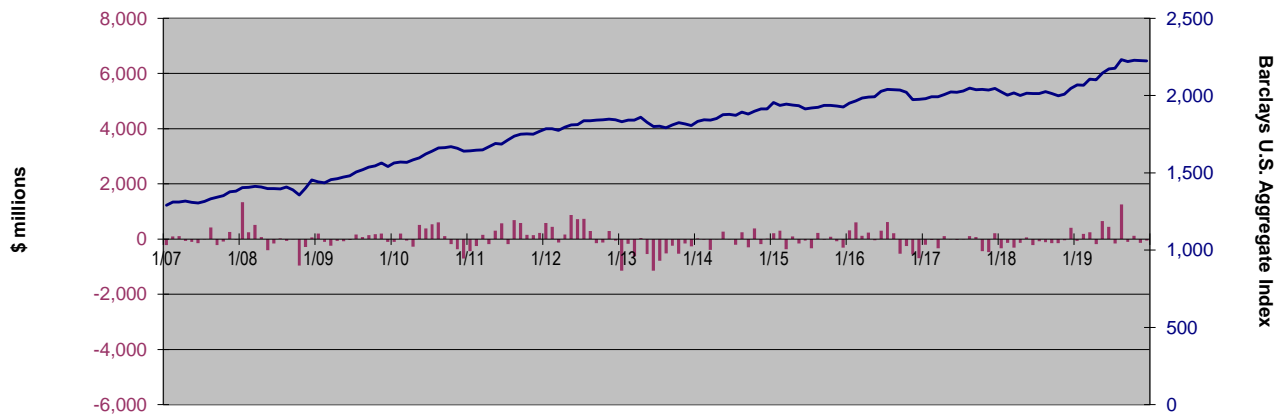


**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY
DECEMBER 2019**

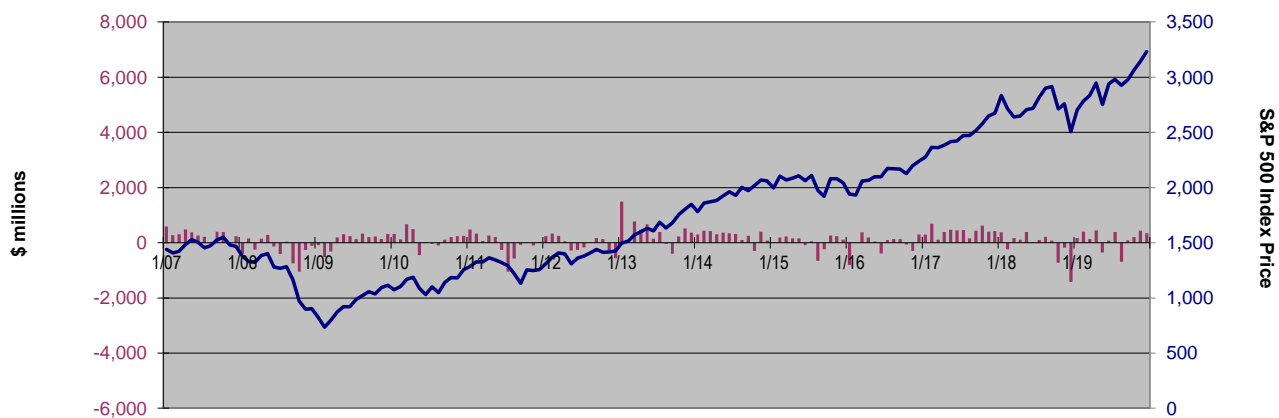
**Monthly Interfund Transfers
G Fund**



**Monthly Interfund Transfers
F Fund**



**Monthly Interfund Transfers
L Funds**





October 10, 2019

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

Dear Michelle,

Enclosed are the results of our review of US proxy votes by BlackRock for the 3rd quarter of 2019. Our review found that there were no exceptions to policy over this period.

Best regards,

A handwritten signature in blue ink, appearing to read "Fassil G. Michael".

Fassil G. Michael
Executive Director, Head of Custom Research

MEMORANDUM

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

- Votes at 36 meetings were examined.
- Votes at 12 of the 36 meetings were for directors, auditors, and/or management say-on-pay (MSOP) only.
- At the 24 remaining meetings, there were 43 non-director/auditor/MSOP proposals.

The following table illustrates the votes involved by proposal type:

| Proposal | Votes |
|---|-----------|
| Executive stock plan | 7 |
| Advisory vote on golden parachute compensation | 3 |
| Frequency vote on MSOP | 4 |
| Issue shares below net asset value | 2 |
| Approve increase in common stock | 2 |
| Reduce authorized common stock | 1 |
| Reverse stock split | 1 |
| Approve merger agreement | 4 |
| Issue shares in connection with merger | 1 |
| Issuance of shares pursuant to an acquisition | 1 |
| Issuance of shares pursuant to purchase agreement | 1 |
| Approve NOL pill | 1 |
| Adjourn meeting | 7 |
| Declassify board | 1 |
| Eliminate supermajority vote requirement | 1 |
| Provide right to call special meeting | 1 |
| Approve securities transfer restrictions | 1 |
| Amend declaration of trust | 1 |
| Change company name | 1 |
| Other business | 1 |
| Shareholder proposal | 1 |
| Total: | 43 |

- There were 7 votes cast on executive stock plans; the votes were cast in favor of the plans.
- There were 7 votes cast on mergers, acquisitions and/or major corporate transactions, including 3 issuances of shares pursuant to a merger/acquisition or purchase agreement; the votes were cast in favor of the transactions.
- There were 2 votes cast on increases in authorized common stock:
 - a) 1 vote was cast in favor of the increases (50 percent);
 - b) 1 vote was cast against the increases (50 percent) due to the excessive size of increase without clearly defined reason for substantial changes.
- There was 1 vote cast on a shareholder proposal to adopt portfolio approach in management long-term incentive compensation; the vote was cast against the proposal.
- There were 21 votes cast on management advisory votes on executive compensation; the votes were cast in favor of the advisory votes.
- There were 3 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.