FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

May 24, 2022

David A. Jones, Acting Chairperson of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 24, 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; Ronald D. McCray of Texas, 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.

In attendance for the Employee Thrift Advisory Council (ETAC) were Chairperson Clifford Dailing, National Rural Letter Carriers' Association; Vice Chairperson James W. Sauber, National Association of Letter Carriers; Craig Carter, Federal Managers Association; Daniel Heins, United Postmasters and Managers of the United States; Kathryn Hensley, National Active and Retired Federal Employees Association; Charles Mulidore, National Association of Postal Supervisors; Enjoli Ramsey, Uniformed Services Compensation; Jacqueline Simon, American Federation of Government Employees; Dave Stamey, National Federation of Federal Employees; and Georgia Thomas, Federally Employed Women, Inc.

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. Chairperson Dailing subsequently called to order the Employee Thrift Advisory Council meeting. Acting Chairperson Jones welcomed everyone present to the joint FRTIB/ETAC meeting. The Board members, the Agency leadership, and ETAC members introduced themselves.

1. Approval of the Minutes of the April 26, 2022 Board Meeting.

Acting Chairperson Jones entertained a motion for approval of the minutes of the April 26, 2022 Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on April 26, 2022 be approved.

2. Approval of the October 19, 2021 ETAC Meeting Minutes.

Chairperson Dailing entertained a motion for approval of the minutes of the October 19, 2021 ETAC meeting. The motion was made, seconded, and adopted without objection by the ETAC.

MOTION: That the minutes of the ETAC meeting held on October 19, 2021 be approved.

3. Monthly Reports.

a. Participant Activity Report.

Mr. Ramos reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics April 2022" (attached). He reported that the FERS participation rate continued to increase, rising to 95.1 percent, while the active-duty uniformed services participation rate decreased to 80.5 percent. Compared to the previous year, the FERS full matching rate rose by 2 percentage points, the BRS Active-Duty full participation rate rose by eight percentage points, and the BRS Ready Reserve full participation rate rose by 12 percentage points. Contact center response rates trended down and the service level requirements (SLR) for both phone response time and written correspondence were not met. Factors including Converge communications, seasonal tax topics, and transition preparation all contributed.

Mr. Sauber asked what the actual percentages were for the full matching rates. Mr. Ramos responded that for the full matching rates, FERS was slightly under 85 percent, active duty was slightly under 79 percent, and reserve was slightly under 71 percent.

b. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. See "April 2022 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey began by noting that BlackRock's performance for the F Fund exceeded the Fixed Income Index returns by six basis points, primarily due to securities lending. Its performance for the C and S Funds was in line with the Funds' respective indices for the month. For the I Fund, BlackRock was ahead of the International Index by eight basis points, primarily due to tax advantage.

Mr. McCaffrey went on to report that State Street Global Advisors' performance for the F and C Funds was in line with the Funds' respective indices for the month. For the S Fund, State Street outperformed the Small Mid Cap Index by four basis points, primarily due to securities lending.

Mr. McCaffrey further reported that for the month of April stocks fell as concerns continued about the war in Ukraine, China's COVID-19 struggles, persistently high U.S inflation, some notable negative corporate earnings reports, and the path of the Federal Reserve interest rate policy. The C and S Funds had large losses, as did the I Fund, whose returns were negatively impacted by the stronger U.S. dollar. Longer-term interest rates moved significantly higher because of inflation fears, pushing the F Fund well into negative territory. All the L Funds finished the month lower.

Mr. McCaffrey reported that, year-to-date, BlackRock's performance for the F Fund exceeded the Fixed Income Index return by 25 basis points, primarily due to securities lending. Its performance for the C Fund was in line with the Large Cap Index returns. For the S Fund, BlackRock's performance exceeded the Small Mid Cap Index return by 13 basis points, primarily resulting from securities lending. Its performance for the I Fund lagged the International Index by 71 basis points, primarily due to fair value pricing.

Mr. McCaffrey also reported that, year-to-date, State Street's performance for the F Fund was in line with the Fixed Income Index return. Its performance for the C Fund was in line with the Large Cap Index. For the S Fund, State Street outperformed the Small Mid Cap Index by 10 basis points, primarily due to securities lending.

Mr. McCaffrey noted that, for the current month through Monday, May 23, the C Fund is down 3.69 percent, the S Fund is down 5.71 percent, and the I Fund is ahead by 0.33 percent. In fixed income, the F Fund has a loss of 0.01 percent, and the G Fund is ahead by 0.18 percent

Mr. McCaffrey added that total participation in the L Funds increased by approximately 20,000 participants in April. This is within the expected range and is mostly due to automatic enrollment of new participants. Net interfund transfers (IFT) for April into the G Fund from the other funds remained relatively low, and IFTs overall were about 1.41 percent. This is lower than the long-term median and indicative of the fact that the vast majority of participants left their funds in place.

Mr. McCaffrey concluded his report by noting that May is shaping up to be a higher volume month for IFTs; however, how significant that is remains to be seen. At last check on Friday, May 20, the percentage of participants making an IFT for May was 1.4 percent, which is the same as for the entire month of April, but not yet close to levels that would be of concern.

In response to a question from Member Jasien regarding the effect recent market volatility was having on participant behavior, Mr. McCaffrey noted that FRTIB is always concerned that participants might be moved to deviate from long-term investment strategies during times of short-term volatility. He added that the Office of Communications and Education sends out reminders to participants that it is best to adhere to their long-term strategies, which Mr. Courtney confirmed. The low IFT numbers indicate that the message is resonating with participants.

c. Legislative Report.

Ms. Weaver began by noting that four nominees to be members of the Board were referred out of the Homeland Security and Governmental Affairs Committee. She further identified two bills of potential interest. Senators Dan Sullivan and Pat Toomey introduced the Investor Democracy is Expected Act (INDEX Act), which would require investment advisors of passively managed funds to vote proxies in accordance with the instructors of fund investors, rather than advisor discretion. The advisor would then be responsible for passing through the proxies, collecting instructions, and voting according to investor wishes. This bill would apply to the TSP. FRTIB is reviewing the bill to understand its interaction with the statutory prohibition against voting proxies for the TSP. The second bill is H.R. 7852, introduced by Congressman Adam Schiff. The purpose of this bill is to provide for a corporate responsibility investment option under the TSP. The text is not yet available, so FRTIB will monitor and follow up as needed.

4. Quarterly Metrics Report.

Mr. Dennis McNulty from the Office of Planning and Risk provided a report on key performance indicator results for the second quarter. See "FY22 Q2 Metrics Report" (attached). In Goal A, FRTIB missed the targeted performance goal for the Blended Retirement System (BRS) full matching contribution rate. However, this number did improve from the previous quarter and exceeded the desired threshold level for the first time. He expects the BRS full matching rate to continue to increase due to the impact of the five percent default deferral rate. In Goal D, contact centers experienced challenges with phone call response rates and phone call abandonment rates, with both falling short of desired performance targets. Staffing shortages due to COVID and labor market imbalances, winter storms, and higher than usual call volume all impacted performance.

In response to a question from Member Jasien, Mr. Ramos shared that the current service level rate targets are 90 percent of calls answered within 20 seconds, and an abandonment rate of two percent. Upon clarification, Mr. Deo and Mr. Ramos shared that current actual service level rates were 65 percent of calls answered in less than a minute, and an abandonment rate of 4.1 percent. In response to a question from Mr. Sauber, Mr. Ramos noted that several factors were driving the low performance numbers, such as tax season, increased levels of communications regarding the impending changes to the recordkeeping system and staffing difficulties with vendors. Member Jasien noted for the record that achieving better service levels during the Converge transition needed to be a high priority. Mr. Ramos agreed, noting that they have overstaffed call centers for the transition. Mr. Ramos also noted that FRTIB is doing well compared to the industry even if not meeting its own stringent standards.

5. L Funds Study.

Mr. Mike Jerue from the Office of Investments provided an overview of the 2022 life cycle funds asset allocation review. See "2022 L Funds Asset Allocation Review" and "2022 L Funds Asset Allocation Review Memo to ED" (attached). The objective of this annual review is to determine whether any asset allocation changes could improve expected outcomes for participants investing in the L Funds. There were no such changes identified this year. The Office of Investments therefore recommended to the Executive Director that the current designs of the L Funds be left in place, to which he concurred. In reaching this determination, the Office of Investments analyzed participant demographics and behavior to develop profiles of average L Fund investors. These profiles included average salaries, account balances, deferral rates, age of retirement, and age at first withdrawal. The profiles were developed using FRTIB data as well as publicly available data from the Office of Personnel Management. Second, the Office of Investments developed capital markets assumptions including expected returns and volatilities as well as expected interest rates and inflation rates. Finally, they generated a list of potential changes to L Fund asset allocations. The Office of Investments engaged the consulting firm Aon to provide capital markets expertise, retirement industry perspective, and computational capability.

Mr. Jerue further noted that the L Funds are currently in the midst of a long-term transition that will increase their allocation to equities. In 2018, the annual L Fund review determined that participants would benefit from holding more C, S, and I funds and less of the G and F Funds. As a result, the L 2055, L 2060, and L 2065 funds were established in 2020 with an initial equity allocation of 99 percent. The other L Funds will gradually increase their equity allocations to avoid a potentially disruptive sudden change in asset allocation. This transition will be complete in 2032.

Mr. Jerue then introduced Mr. Russ Ivinjack, Mr. Saif Choudhury, and Ms. Allie Riley from Aon. Mr. Ivinjack shared that Aon looked at, among other things, the glide path risk level and the structure of the L Funds. Aon concluded that the current risk level of the funds is appropriate, and that there are no alternative structures that yield meaningfully different results. Mr. Choudhury provided a detailed report of Aon's methodology and findings, confirming the conclusions Mr. Ivinjack shared. In response to a question from Acting Chairperson Jones, Aon did not conclude that moving 100 percent to the G Fund was preferable to investing in both the G Fund and the F Fund, because the F Fund, while subject to higher volatility, comes with a higher assumed return, and that volatility is typically muted over an extended period of time. In response to a question from Mr. Sauber, Mr. Choudhury noted that the review began with Aon's capital market assumptions as of December 31, 2021, but were updated as of February 28, 2022. As the analysis was performed in earnest in February, March, and April of 2022, changes in market rates during that time period were captured. Additionally, Aon published new capital market assumptions on March 31, 2022, and the recent short-term changes in the market would not change the long-term directional outcomes of the analysis. In response to a question from Member Jasien, Mr. Choudhury indicated that whether a "to" or "through" investment strategy is best depends on a number of factors. Several industry firms advocate for either strategy. Aon believes that the precise shape of the glide path is less important than the absolute risk level. Mr. Ivinjack added that whether a fund offers a defined benefit plan can be a major decision point in adopting a “to” versus “through” strategy. Finally, Mr. Deo noted that the FRTIB’s communication efforts are a major driver of participants’ perception of whether to keep their assets with the TSP through retirement.

6. Converge Update.

Mr. Ramos made opening remarks expressing thanks to the Converge program team and noting the scheduled Converge go-live for the coming weekend. He described the conversion weekend as a hectic time with high volumes expected at the contact centers once the transition was complete. He also indicated that the necessity for participants to set up a new log in combined with high call volumes would create service delays. He asked for patience from participants. Mr. Tanner Nohe, the Converge Program Manager, provided an update on the Converge transition. See “Converge Update” (attached). For all five functional areas, all critical readiness activities are on track. The transition period began on May 16, 2022, which was the last day to complete most transactions for participants. A blackout period will begin at the close of business on May 26. All four test data rounds were completed successfully, and the team was able to validate the improvements made on test round 4. Based on those tests, everything is tracking to the expected time. Collaboration with payroll offices has been successful, as all ISAs and MOUs have been completed. Additionally, all testing and two rounds of training were completed with the payroll offices. Finally, the authority to operate was granted on February 28, 2022. All milestones have been completed to this point except for the go-live milestone, which is on track to be completed over the coming weekend.

Mr. Nohe stressed that the low costs associated with TSP Funds, the ThriftLine phone number, and the tsp.gov URL will remain the same. Major changes include the introduction of a mobile app, virtual agent, and mutual fund window. Additionally, participants will be able to make loan repayments after leaving the federal service and sign documents electronically, and military and civilian account information will be in one location. Changes to terminology include distributions instead of post-separation withdrawals, investment elections instead of contribution elections, and rollovers instead of transfers. These changes are intended to track more closely with common industry terminology.

Mr. Nohe further noted that all participants will need to go through a new account login process when first visiting the website after go-live. This will involve creating a new username and password as well as enrolling in multi-factor authentication. Once in the redesigned My Account, participants will be greeted with an easy to navigate home page to manage their accounts, including a robust mutual fund window with search and direct buying functionality. Member Jasien and Acting Chairperson Jones congratulated the team on its success.

7. Office of Communications and Education Annual Report.

Mr. Courtney presented the Office of Communications and Education annual report. See “Office of Communications and Education Annual Report” (attached).

Mr. Courtney began by introducing the four teams for the office: the writing and editing team, the multi-media design team, the print mail team, and the education and outreach division. Mr. Courtney reported that, after two years of remote-only teaching, OCE conducted an in-person event at a regional Rural Letter Carriers event in March of 2022. With the Converge transition, OCE's work in preparing for the transition consisted of two tracks: ensuring that OCE's assets were updated and ready to reflect new terminology and policies, and informing participants, beneficiaries, and stakeholders that changes were coming. OCE shared key information through email, mass and targeted postal service mailings, the TSP website, social media, TSP classes, and through trusted third parties who regularly interact with participants. Materials were shared with thousands of human resource contacts at agencies and services as well as with ETAC members. The messaging had two themes: get excited for new features and experiences, and get ready for important dates. In February, the Executive Director shared a message previewing new features as well as informing participants that some transactions would be temporarily unavailable in May 2022.

Mr. Courtney explained that all OCE's communication materials were designed to convey important information and then direct participants to the TSP website to learn more. Over the past three months, the first page of a special web portal detailing the changes has become one of the most visited places on the website. A link to the web portal detailing changes appears at the top of any tsp.gov webpage. Nearly 25 percent of visitors to the portal arrived by clicking that link. Over half came from users clicking a link from OCE emails or social media posts. Metrics show that participants are interested and paying attention. Additionally, in early March, OCE invited participants to tell them what they wanted to hear more about in future emails. In just a few days, OCE received 60,000 responses.

Mr. Courtney also noted that for Quarter 2, all participants will receive two paper statements due to the changing of recordkeepers in the middle of the quarter. Beginning with Quarter 3, quarterly statements will be delivered in My Account only, while annual statements will be delivered by mail as well as My Account. Member Jasien congratulated the OCE team on their outstanding messaging. Chairperson Dailing expressed appreciation to OCE for being able to help guide participants through a period of high market volatility. He also thanked the Board, Mr. Deo and his team, Ms. Weaver and her team, and Mr. Courtney and his team for their efforts. He noted that the interaction and openness in presenting the information solidifies confidence in the process. Acting Chairperson Jones expressed his appreciation to the ETAC for their participation as partners throughout the process.

8. <u>Adjourn</u>.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairperson Dailing adjourned the meeting for ETAC at 11:40 a.m.

<u>MOTION</u>: That this meeting be adjourned.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Acting Chairperson Jones adjourned the meeting at 11:40 a.m.

MOTION: That this meeting be adjourned.

Digitally signed by DHARMESH VASHEE
Date: 2022.07.20 11:56:29 -04'00'

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics April 2022
2. April 2022 Performance Review – G, F, C, S, I, and L Funds
3. FY22 Q2 Metrics Report
4. a. 2022 L Funds Asset Allocation Review
   b. 2022 L Funds Asset Allocation Review Memo to ED
5. Converge Update
6. Office of Communications and Education Annual Report