



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

FOR IMMEDIATE RELEASE

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FEDERAL RETIREMENT THRIFT INVESTMENT BOARD APPROVES A NEW BENCHMARK INDEX FOR I FUND

Washington, D.C. – The Federal Retirement Thrift Investment Board (FRTIB) conducted a routine review of the four benchmark indexes followed by the Thrift Savings Plan’s (TSP) Common Stock Index Investment Fund (C Fund), the Small Capitalization Stock Index Investment Fund (S Fund), the Fixed Income Index Investment Fund (F Fund), and the International Stock Index Investment Fund (I Fund). The Board reviewed the report and recommendations of Aon, its investment consultant, and FRTIB staff. The Board made no changes to the current benchmarks for the C Fund, S Fund and F Fund, and unanimously voted to change the benchmark used for the I Fund.

The I Fund currently tracks the MSCI Europe, Australasia and Far East (EAFE) Index. The Board selected the MSCI All Country World ex USA ex China ex Hong Kong Investable Market Index (MSCI ACWI IMI ex USA ex China ex Hong Kong Index) as the benchmark for the I Fund.

By broadening the index, the Board is expanding investment opportunities and improving the I Fund’s risk-return profile, in line with its statutory mandate and fiduciary duty to the 6.9 million TSP participants.

The MSCI EAFE Index provides exposure to 798 large- and mid-cap stocks in 21 developed markets, representing 55% of non-U.S. market capitalization. The MSCI ACWI IMI ex USA ex China ex Hong Kong Index provides exposure to 5,621 large-, mid-, and small-cap stocks in 21 developed markets and 23 emerging markets, representing 90% of non-U.S. market capitalization. This adjustment to the I Fund will more than double the number of countries included in the Fund and will change the number of equities by 700%.

The Board noted that the MSCI ACWI IMI ex USA ex China ex Hong Kong Index is expected to outperform the MSCI EAFE Index on a risk-adjusted basis over the long term. Historical analysis confirmed that the risk-adjusted returns for the MSCI ACWI IMI ex USA ex China ex Hong Kong Index have exceeded those of the MSCI EAFE Index over the past twenty years.

Aon noted:

Overall, operational complexity has increased when investing in emerging markets in recent years given a range of events such as investment restrictions on sensitive Chinese

technology sectors, delisting of Chinese companies and sanctions on Russian securities due to the Russia-Ukraine conflict.

These types of unforeseen events can incur transaction costs and may cause performance and volatility swings. For example, the announcement of investment restrictions can cause the value of a stock to decline at a time where the investor is forced to sell. Additionally, even if the investment restriction is on a set of securities or sectors, the negative sentiment generally has a broader impact on the performance of the country for a certain period of time. Given the asset size of the I Fund, the forced selling or restricted investments could incur higher than average market impact costs due to liquidity challenges.

Tensions between the U.S. and China have been building, with the latest developments being the technology investment restrictions and export ban of U.S. technology to China. If the current investment restrictions on China are the beginning of further restrictions spanning China and Hong Kong investments, this level of uncertainty can outweigh the benefits of expanding the I Fund to include China and retaining exposure to Hong Kong, based on the TSP's specific circumstances.

As of October 31, 2023, TSP participants had invested \$68 billion in the I Fund. The FRTIB will work with its fund managers to implement the transition from the current index to the new index in 2024.

The MSCI ACWI IMI ex USA ex China ex Hong Kong fact sheet can be found at <https://www.msci.com/documents/10199/7997f714-2b51-d7fb-dca2-ed9ff978d508>.

The TSP is a retirement savings plan for Federal employees; it is similar to the 401(k) plans offered by many private employers. As of October 2023, TSP assets totaled approximately \$770.5 billion, and retirement savings accounts were being maintained for more than 6.9 million TSP participants. Participants include Federal civilian employees in all branches of Government, employees of the U.S. Postal Service, and members of the uniformed services. Additional information can be found at www.tsp.gov.

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