FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

June 28, 2022

David A. Jones, Acting Chairperson of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on June 28, 2022, at 10:00 a.m., Eastern Daylight Time. The meeting was held via video teleconference and open to the public. In attendance were Dana K. Bilyeu of Oregon, member; Leona Bridges of California, member; Michael Gerber of Pennsylvania, member; Stacie Olivares of California, 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; 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.

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. Acting Chairperson Jones welcomed the new Board members and thanked all of the former Board members for their years of service.

1. Approval of the Minutes of the May 24, 2022 Joint Board/ETAC Meeting.

Acting Chairperson Jones entertained a motion for approval of the minutes of the May 24, 2022, Joint Board/ETAC meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Joint Board/ETAC meeting held on May 24, 2022 be approved.

2. Converge Update.

Tanner Nohe, Converge Program Manager, began by recounting why the Agency decided to transition to Converge and the process involved. See "Converge Update" (attached). Mr. Nohe reported that the Agency previously operated as the integrator, working with multiple vendors and multiple systems to deliver recordkeeping services to participants. Previously, the FRTIB owned and maintained all of the IT systems, all of the applications, the infrastructure, and the security systems. He noted that the previous technology and infrastructure were not agile and not scalable. Converge seeks to bring FRTIB's offerings more closely in line with best-in-class commercial offerings and to bring the traditional benefits of the TSP to a more modern and efficient platform. The June 1, 2022 go-live was the culmination of over six years of research, due diligence, and preparation.

Mr. Ramos discussed the scope of Converge and some of the data collected since go-live, as well as some of the challenges that the Agency is facing. He began with an executive summary of his remarks.

Mr. Ramos reported that in January 2022 the Agency began communicating the upcoming changes to all TSP participants through all available channels, informing them of the new features, key transition dates and details they would need to set up online access to My Account after the transition. The Agency anticipated some bumps in the transition, but some participants experienced more difficulties than expected after go-live, including trouble logging in to the new website on the first few days. The Agency has seen an extremely high volume of calls at the call centers, which has resulted in long delays to speak with representatives. Currently 90 percent of participants who have attempted to set up their new login have done so successfully, and 90 percent was the target the Agency was hoping to obtain. To handle the increased volume, the number of call center representatives was increased to over 800 representatives.

As part of the Converge transition, the Agency converted more than 26 billion records for 6.6 million participants and balanced roughly 743 billion dollars in TSP participant assets. Mr. Ramos highlighted additional accomplishments of the Converge transition and the new features now available to participants, including multiple options for secure online access, redesigned My Account page, mobile app, and mutual fund window.

Mr. Ramos next discussed the two main challenges the Agency has faced since go-live: participants with problems logging into the new website and long wait times at the call center. The vendor has made changes to the login process that have resolved the first issue, but those initial login problems, combined with pent up demand due to the blackout period during the conversion to Converge and increased overall attention due to the market conditions, resulted in very high call volumes. The vendor's staffing projections for the call center were not sufficient to meet the initial demand of calls. To address this, the vendor has upstaffed the call center, adding an additional 320 agents, which is a 66 percent increase. Despite the additional call center staff, wait times and abandonment rates are still higher than normal. The vendor is likely to add 100 more agents within the next week and will continue to add staff until they get where they need to be.

Mr. Ramos added that 266,000 beneficiary designations were intentionally not transferred over because data quality issues in the old system prevented it. However, beneficiary forms for those accounts remain on file and accounts will be processed based on those designations. All participants are encouraged to review beneficiary information and make updates online.

Historical account information was not moved into the new system. Data usage rates for historical data were low and costly to include in the new system. Additionally, there were security concerns associated with having so much account data available online. Participants can view 10 years' worth of balance history online and can request statements and tax forms from the vendor or can obtain balance information verbally from the call center.

In response to a request from Member Bilyeu, Mr. Ramos indicated that he and Mr. Deo would arrange for the new recordkeeping vendor, Accenture Federal Services (AFS), to make a presentation to the Board regarding lessons learned and improvements going forward. Mr. Deo added that he has had multiple conversations with the head of AFS to ensure she understands the critical nature of the issues.

In response to a question from Member Bilyeu, Mr. Courtney explained that to better communicate with participants the Agency worked with the vendor to ensure the correct messaging is on the website by creating a "known issues" page. The web page includes information such as problems with web browsers, account holds, and beneficiary designations. The Agency is also preparing to launch a series of webinars concerning changes in the plan and technology. In response to another question from Member Bilyeu, Mr. Courtney indicated that the Agency is communicating directly with payroll providers to inform them of rollout issues, in case they receive questions concerning the TSP.

3. <u>Monthly Reports</u>.

a. Participant Activity Report

Mr. Ramos reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics May 2022" (attached). He reported that the uniformed services participation data for May was unavailable due to the transition activity cutoff dates. Also, loan and withdrawal transaction volumes were lower in May due to the blackout period of the Converge transition. In addition, the blackout and transition to the new recordkeeper resulted in reduced withdrawals and the unavailability of certain participant data. Mr. Ramos anticipates resuming normal reporting next month. Mr. Deo added that the loan volume for June appears higher, which may be partially attributed to new features that allow participants to take more loans but is also likely due to pent-up demand after the blackout period.

b. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. <u>See</u> "May 2022 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey began by noting that for the month of May, BlackRock's performance for the F Fund exceeded the Fixed Income Index returns by seven basis points, primarily due to securities lending. Its performance for the C Fund was in line with the Large Cap Index. It outperformed the Small Mid Cap Index by eight basis points, primarily due to securities lending. For the I Fund, BlackRock was ahead of the International Index by 121 basis points, primarily due to fair value pricing.

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 six basis points, primarily due to securities lending.

Mr. McCaffrey further reported that, for the month of May, markets were mixed as investors weighed persistent inflation against the Federal Reserve's signaling that interest rate hikes would proceed more slowly than some observers expected. The C and S Funds fell, and the I and F Funds finished higher. The L Income Fund rose slightly, but the other L Funds posted losses.

Because of the recordkeeping transition, all funds ended their performance month on May 26, 2022. As a result, the F, C, S, and I funds were not priced on the final two business days of the month because there was a blackout applied to participant transactions. However, all invested participant assets were managed as usual by the investment managers during those final two days. Because of this, there are the normal small differences in performance for the managers relative to the indices for the F, C, and S Funds, but a broader divergence for the funds themselves when measured against the indices. This divergence will reverse for the June performance period, which will include the final two business days of May.

Mr. McCaffrey reported that year-to-date, BlackRock's performance for the F Fund was ahead of the Fixed Income Index return by 32 basis points, primarily due to securities lending. Its performance for the C Fund was in line with the Large Cap Index. For the S Fund, BlackRock's performance exceeded the Small Mid Cap Index return by 19 basis points, primarily resulting from securities lending. Its performance for the I Fund was ahead of the International Index by 34 basis points, primarily due to tax advantage.

Year-to-date, State Street's performance for the F and C Funds was in line with the Funds' respective indices. For the S Fund, State Street outperformed the Small Mid Cap Index by 15 basis points, primarily due to securities lending.

Mr. McCaffrey noted that, for the current month through Monday, June 27, both equity and fixed income funds remain in negative territory. The C Fund has a loss of 3.74 percent, the S Fund is down 3.91percent, and the I Fund is down by 6.58 percent. In fixed income, the F Fund has a loss of 2.92 percent, and the G Fund is ahead by 0.26 percent. These numbers include the final two business days of May, as previously noted.

Mr. McCaffrey added that more than half of TSP participants hold some of at least one of the L Funds and almost one third of participants have all of their assets in the L Funds. Net interfund transfers (IFT) for May into the G Fund from the other funds rose significantly relative to previous months as participants flocked to the greater perceived safety of the G Fund. On a percentage basis, IFTs were about 1.6 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.

c. Legislative Report

Ms. Weaver began by noting that the House of Representatives and Senate are out this week and will return to session July 11. She stated that the Agency would continue to monitor the Defense authorization bill for any items that would impact blended retirement or the TSP. There are two additional bills of note. First, the No ESG at TSP Act prohibits ESG (Environmental, Social and Governance) mutual funds from being included in the mutual fund window. The Agency will likely oppose this bill because it would become nearly impossible to monitor individual mutual funds in the mutual fund window, given that there are more than 5,000 mutual funds included. Second is the Earn Act, which has a number of provisions that would affect the TSP, including requiring catch up contributions to be made as Roth contributions, increasing the catch up limit for people between ages 60 and 63, allowing plans to accept an employee certification on hardship distributions, increasing the age for required minimum distributions up to 75, harmonizing the distribution rules for Roth IRA and Roth TSP's and Roth 401(k)s, and eliminating the distribution requirement for Roth accounts in employer plans.

4. Quarterly Vendor Risk Management Report.

Mr. Brandt reported that the Office of Planning and Risk (OPR) provides the Executive Director and the Board Members with a synopsis of vendor risk assessment for the FRTIB's key vendors. Mr. Brandt provided a written memo that reports the results of the analysis performed by OPR for the first quarter of calendar year 2022. See "Vendor Risk Assessment Q1 2022" (attached).

In response to a question from Acting Chairperson Jones, Mr. Brandt indicated that he would get back to him regarding a list of vendors the Agency is currently working with to analyze how many will no longer be active providers as the Agency continues to fully implement Converge and the new outsourced recordkeeper.

5. 2021 Federal Employee Viewpoint Survey (FEVS) Report.

Ms. Goethe discussed the results of the 2021 FEVS. See "2021 FEVS Results" (attached). The FRTIB response rate for 2021 was 65.5 percent, with 175 of those who were eligible to take the survey completing it, down from a 74 percent response rate in 2020. In 2020, the Office of Personnel Management (OPM) modified the FEVS to include questions or statements surrounding employees' perceptions of support, communication, and work experience during the pandemic. OPM also allows Agencies to include agency specific questions in the FEVS, and the FRTIB included eight questions that gauge employee perceptions around the FRTIB core values.

Ms. Goethe reported that the performance confidence index for the Agency was 91 percent. This pulls from five statements that assess employees' perceptions of their work unit's ability to achieve goals and produce work at a high level. Ms. Goethe added that employee engagement levels remained the same as 2020 at 77 percent, while global satisfaction decreased by five percent from 72 to 67 percent, with decreases occurring mostly in satisfaction with the Agency, job, and recommending the Agency as a good place to work.

Ms. Goethe also reported that one new COVID-19 related question was included in the FEVS, which addressed how well Agency leadership provided updates about return to the work site. Ninety-three percent of employees agree that they received information and updates on return to the workplace. Positive responses to other Covid-19 related questions decreased relative to 2020.

Ms. Goethe added that when asked how well the FRTIB demonstrated that it is passionate about delivering services that improve financial outcomes for participants, 90 percent of employees responded that the Agency is doing well or very well. Ninety percent of employees responded that the Agency listens to, respects, and carefully considers the needs of the participants well or very well; 83 percent of employees responded that the Agency is trustworthy, down 8 percent from 2020; 77 percent of employees indicated that the Agency values individuals and organizational honesty, consistency, and credibility. For a second year in a row, 87 percent of employees responded that the FRTIB operates with independence and acts ethically to carry out its fiduciary responsibilities. Seventy-six percent of employees responded that the Agency values diversity, with an increase from 17 percent to 24 percent responding poor or poorly from 2020. Seventy percent of employees responded that the FRTIB encourages open, candid dialog and fosters relationships based on trust and shared objectives. And 74 percent of employees responded that the FRTIB builds partnerships to achieve greater outcomes.

Ms. Goethe next reported the results of each of the eight core values questions. She concluded by informing the Board that the 2022 FEVS is ongoing, and those results will be available in the fall.

In response to a comment from Acting Chairperson Jones, Ms. Goethe agreed with his interpretation of the responses to the COVID-19 questions that the Agency communicated extraordinarily clearly with staff throughout the two-plus year period, but many employees preferred working full-time from home as opposed to coming into the office.

6. <u>Adjourn</u>.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Acting Chairperson Jones adjourned the meeting at 11:21 a.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Converge Update
2. Thrift Savings Fund Statistics May 2022
3. May 2022 Performance Review – G, F, C, S, I, and L Funds
4. Vendor Risk Assessment Q1 2022
5. 2021 FEVS Results