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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

February 28, 2023

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 28, 2023, at 10:08 a.m., Eastern Standard Time. The meeting was held at the Board's offices at 77K Street NE and was open to the public via teleconference. In attendance were Dana K. Bilyeu of Oregon, member; Leona M. Bridges of California, member; Stacie Olivares of California (by telephone), 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 Participant Experience; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Information Officer; and Thomas Brandt, Chief Risk Officer.

Welcome and Introductions.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:08 a.m. and welcomed everyone present to the meeting.

1. Approval of the Minutes of the January 24, 2023, Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the January 24, 2023, Board meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board meeting held on January 24, 2023, be approved.

Mr. Deo then gave opening remarks and provided a brief summary of the agenda.

2. Investment Manager Annual Service Review – State Street Global Advisors.

Mr. McCaffrey welcomed and introduced Rocky Granahan, relationship manager, and colleagues from State Street Global Advisors (SSGA). Ms. Granahan provided an introduction and brief overview of the agenda for SSGA's presentation. She then introduced Yie-Hsin Hung, President and CEO of SSGA, and her SSGA colleagues.

Ms. Hung began by describing SSGA as a client-centric organization with tremendous expertise and a collegial, collaborative environment. She explained that SSGA was one of the earliest pioneers of index investing, active quantitative investing approaches, and exchange-traded funds (ETFs), among other areas. She expressed her gratitude for the partnership with FRTIB, then introduced Lori Heinel, Executive Vice President and Global Chief Investment Officer at SSGA.

Ms. Heinel provided an overview of SSGA's annual service review. See "Investment Manager Annual Service Review (State Street Global Advisors)" (attached). Ms. Heinel began by noting that 2023 is a continuation of 2022 where central bankers will continue trying to get inflationary pressures under control against the backdrop of subpar growth due to the exhaustion of post-COVID impulses that is putting a damper on economic activity.

Ms. Heinel suggested that we are currently in a growth recession, in which we are unlikely to see negative economic activity, but neither the world nor the U.S. is likely to grow at potential. If global economic activity is at approximately 3.5 percent in equilibrium, we are likely to have slower economic growth than any period other than during the global financial crisis and the height of COVID. The U.S. is forecasted at about 0.4 percent growth for 2023, and the Eurozone is forecasted at about 0.3 percent growth. The one economy likely to experience above-trend growth is China, due to their post-COVID reopening.

Ms. Heinel also suggested that central bankers have already put in the necessary work and that a disinflationary episode is likely near. This may lead to central bankers, including the Federal Reserve (Fed), cutting rates by the end of 2023. During the last couple years, inflationary impulses were demand-driven but also very much supply-driven. However, many of the supply issues have abated. Industrial production has normalized, and housing prices and owners' equivalent rents have started to come down.

Ms. Heinel also forecasted that the period of strength for the U.S. dollar may be nearing an end and looking beyond U.S. investments over the next couple of years may be attractive for investors. Right now, the U.S. dollar is around 30 percent overvalued.

Ms. Heinel noted that secular forces, such as demographics, are currently driving the decline of long-term growth, but those forces are slowing globally. U.S. 10-year yields are thus attractive from a long-term return perspective. In terms of fixed-income assets, buying longer-term assets is more attractive right now. SSGA prefers investment grade or government to high-yield.

Ms. Heinel explained that there are risks on both sides in terms of what the Fed does. On one hand, if the Fed overtightens, that could create major economic challenges for the U.S. However, if inflation doesn't come under control, that would have serious consequences as well. Due to those dual risks, confidence in SSGA's core forecast is lower than usual.

Ms. Heinel opined that investment grade credit is in an attractive spot as corporate balance sheets remain healthy. However, high-yield is less attractive as the relative spreads aren't commensurate with the default rate or the composition of the index. This is due in part to the degradation of the quality of the index.

Finally, Ms. Heinel reported that SSGA's posture toward over- and underweighting equities has been more volatile over the last year or so than would be typical; that has been in response to substantial market volatility. However, what is consistent is that the more attractive equities opportunities are outside the U.S. right now. SSGA favors Europe and value-oriented companies as driven by relative valuation. However, SSGA remains relatively unenthusiastic about emerging markets.

In summary, Ms. Heinel concluded that 2023 will be a tricky year to navigate, and that diligence in tracking the evolution of issues such as central bankers' ability to tame inflation, economies' ability to weather the tightening period, and overall volatility will be critical.

Ms. Granahan then introduced Karl Schneider, Portfolio Manager for the C and S Funds. Mr. Schneider noted that the C Fund has matched the S&P 500 benchmark over each time-period since inception, as SSGA manages it in a fully replicated fashion. Meanwhile, the S Fund has outperformed its benchmark over nearly every time-period since its inception. SSGA manages this Fund in an optimized fashion, meaning not every name is owned at its exact index weight but rather they utilize a risk model to match as nearly as possible the risk and return of the Dow Jones U.S. Completion Index. The main driver of positive tracking is the Securities Lending Program, which has contributed plus 24 basis points in 2022. Additional positive tracking came from futures and security misweights.

Mr. Schneider then introduced Amy Cheng, Senior Portfolio Manager. Ms. Cheng reported that the inception date of the I Fund was December 9, 2022. Around 12 billion dollars was transferred smoothly; securities were transferred in-kind or in-species, which avoided trading costs and stamp duty taxes. This also avoided time out of market between the buy and sell sides. For the partial December period, the I Fund outperformed its benchmark by 42 basis points, primarily due to fair value pricing.

Ms. Cheng then introduced Marc DiCosimo, Portfolio Manager on the Fixed Income Indexing Team. Mr. DiCosimo stated that the F Fund is benchmarked to the Bloomberg U.S. Aggregate Index. While the F Fund typically tracks appropriately, one month resulted in negative 21 basis points of performance relative to the index due to a timing discrepancy in pricing on the last day of the month. Once the timing discrepancy is removed, performance for the year resulted in positive 11 basis points of performance relative to the index, attributable to securities lending.

Mr. DiCosimo then introduced Axel Hester, who oversees securities lending. Mr. Hester noted that the functions of execution of the lending program and the program's design and oversight are separate. A lending agent actually executes the program, and SSGA handles design and oversight. There is also an additional level of committee oversight. In terms of the market, equity has been hit with several factors increasing volatility, which benefits securities lending. The demand and supply in securities lending markets for fixed income and treasuries specifically has remained robust. Demand for corporate bonds has increased slightly, especially in high yield. Cash collateral reinvestment opened 2022 very strong, but as Fed tightening caught up, reinvestment spreads declined. By the end of 2022, reinvestment spreads were virtually zero. A large portion of G Fund assets were moved into a cash equivalents account in order to preserve return on funds and maintain liquidity. The C Fund is still composed of S&P 500 securities, which are in excess supply, so demand is not high. The S Fund, however, has seen significant demand. The F Fund did see a significant increase in general collateral balances by midyear, but those disappeared by the end of the year due to reinvestment spreads declining. Finally, the I Fund is nearly out of its post-transition ramp up phase.

In response to questions from Member Bridges, Mr. Hester clarified that SSGA's 450 dedicated securities lending staff were assigned to the overall program, not specifically the TSP; that the program maintains 150 borrower relationships which may be with affiliated entities; that its 9 offices are around the world in different time zones; and that new banking regulations may change the amount of capital lending dedicated to indemnification of the TSP against borrower default loss.

3. Recordkeeper Service Review – Accenture Federal Services.

Mr. Courtney welcomed and introduced Elaine Beeman and Owen Davies, the two most senior members from Accenture Federal Services (AFS) on the FRTIB recordkeeper program, to present an overview of AFS's service review. See "Recordkeeper Service Review (Accenture Federal Services)" (attached).

Ms. Beeman began by noting that the Converge program is emerging from an extended burn-in period, and that AFS has been working through the kinks of operating in a new environment. Ms. Beeman then introduced Mr. Davies to provide an update on AFS's progress on previously identified areas for improvement.

Mr. Davies first provided that AFS has improved the installment process so that participants can change their installment payment with just one call to the ThriftLine, which was previously a source of dissatisfaction. AFS also addressed and resolved the 25-dollar minimum installment issue, and the ability to change installments via My Account is coming in the spring. In addition, AFS is expecting to have historical statements from 2021 and 2022 available to participants in My Account by the second week of March. AFS has also made improvements to the virtual agent AVA, such as the addition of My Account at a Glance and the ability to change your PIN.

Mr. Davies also noted that one of the areas of dissatisfaction was the participants' ability to get to their investment summary quickly inside My Account. AFS has updated the My Account home page to make access easier, with additional improvements planned, such as more direct access to where money is being invested and how it is performing. Also, AFS worked to make it easier for participants to get to the agent with the skill they need, including assistance with year-end services such as tax documents and annual statements. Additionally, every service representative took refresher training to make sure they were current on 1099s and annual statements, as well as any new issues identified since August.

Mr. Davies highlighted that AFS has worked with FRTIB communications to promote new features and online channels and that TSP participants are generally responsive to this outreach. Mr. Davies also noted that there are operational issues being addressed, but that the number of issues is shrinking, as is the duration.

Providing an overall snapshot of the program, Mr. Davies stated that as of February 28, 2023, 3.4 million people have established their new online account log-in; 4.1 million people had done so via the prior platform. In response to a question from Member Bilyeu, Mr. Davies anticipated being close to 4.1 million by June or July of 2023. Mr. Davies reported that call volume around loans and withdrawals remains high, and AFS has taken steps to improve the call center experience. Mr. Davies stated AFS is experimenting with many things to see what works and what does not. In response to a question from Member Bilyeu seeking an example of something that did not work, Mr. Davies stated that AFS set up a voicemail box for participants to leave a message for an expert team to research and call back; however, the volume on that solution has been low, so AFS will make adjustments to promote it better, as well as include additional services.

Mr. Davies further noted that AFS is, generally, continuing to achieve contract performance measures, and that operational processes are improving. AFS has cleared some backlogs that previously existed and is now achieving work in the planned timeframes.

Mr. Davies provided that AFS has seen a continued trend where nearly 90 percent of all participant interactions are happening through digital, self-service channels. Virtual agent sessions are not occurring as frequently as expected, but out of the 3.4 million people who have established their online accounts, 600,000 have downloaded the mobile app and nearly 750,000 are using e-signature. AFS is processing 15 to 18 thousand more loans each month than pre-transition, and the volume of withdrawals has increased by about 20 thousand per month. In response to a question from Member Bilyeu, Mr. Courtney and Mr. Brandt explained that the uptick in loan and withdrawal activity is consistent with the 401(k) industry trends, and that it additionally may be tied to the ability to take out a second TSP general purpose loan. Mr. Deo added that the number of residential loans has gone down, possibly in part as people instead opt for a second general purpose loan, which has a lower fee.

Mr. Davies reported that record-high call volume began to taper after August but picked back up at year end. Despite this, participant satisfaction for the ThriftLine has remained high, just short of the goal of 90 percent. For February, AFS is handling about 13,000 calls per day, the average wait time is 38 seconds, the average call duration is 11 and a half minutes, and approximately 80 percent of calls are answered in 20 seconds. However, 35 percent of callers are repeat callers. AFS is taking a more proactive stance to reach out to repeat callers to resolve their problems and reduce future call volumes.

Mr. Davies highlighted that, for the week after President's Day – which is typically the heaviest volume of the year – the wait time was down to 10 seconds, call duration was down by 45 seconds to a minute, and 90 percent of calls were answered in less than 20 seconds. In response to a question from Chair Gerber, Member Bilyeu, Mr. Davies, and Mr. Brandt noted that the week after President's Day is busy because participants are filing their taxes and have recently received TSP annual statements. Ms. Beeman then reminded the Board that one of the challenges previously identified was being properly staffed for forecasted volumes, and this week, in particular, was a good demonstration of adequate preparation.

Mr. Davies then explained that there are two areas where AFS performance is not where it should be: participant satisfaction and responsive participant support. While call center participant satisfaction is generally good and approaching the goal of 90 percent, satisfaction with the website, mobile app, and virtual agent are not as high. AFS is reviewing detailed data, including participant feedback, about what is not working. As for responsive participant support, AFS has met its general goals over the last 6 months but has not achieved 80 percent of calls answered in 20 seconds or less every month.

Finally, Ms. Beeman discussed that AFS is supporting year-end activities and trying to address operational items affecting participant services and satisfaction. This involves continuous analysis of data and participant feedback. In response to questions from Member Bilyeu, Mr. Davies noted that there are certain topics that participants frequently call in about, and AFS seeks to identify and address those frequent topics first. There are people dedicated to researching cases identified as long duration, which can depend on the type and complexity of the case. The cases that have been open the longest are the ones getting attention first.

In response to questions from Chair Gerber, Mr. Davies noted that the varying participant demographics explain why the call center will never be replaced with digital options. However, a number of factors can go into why participants are having challenges. Some relate to services not working properly, some relate to new options such as the second general purpose loan, and many cases are atypical processing issues. AFS has engaged its supervisors to encourage service representatives to transfer calls to the supervisor and is making more expertise readily available. Additionally, now that some backlogs have been resolved, fewer participants should be reaching out through other channels to get their issues resolved.

In response to a question from Member Bilyeu, Mr. Davies indicated that there had not been discussion about standing up a customer advocacy group or customer relations group, but that he would take the suggestion back for discussion.

In response to questions from Member Bridges, Mr. Davies noted that call center staffing needs fluctuate throughout the year, and in three months AFS will have overseen a full annual cycle. This experience will have AFS better prepared for cyclical peaks and valleys in the future. Additionally, the staff on hand is fully trained, with most agents able to handle most types of call and specialty agents for certain topics such as loans and withdrawals. If an employee's deviation from quality expectations is great enough, AFS administers remedial training, ultimately replacing the employee when necessary.

In response to questions from Member Bilyeu, Mr. Davies and Mr. Courtney explained that call volume spikes in April and May are largely due to the quarterly statement that goes out in April, participants who continue to need tax-related information beyond April 15, as well as the seasonal workload of participants interested in rolling qualified money into the TSP. Mr. Davies further clarified that roll-ins can be either simple or complicated, and that a concierge service is available to help participants through the process.

4. Monthly Reports.

a. Participant Activity Report

Mr. Courtney reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics January 2023" (attached). He reported that for tax year 2022, the recordkeeper issued more than one million 1099-Rs. It also issued statements to all participants reflecting activity from the end of May 2022 to the end of the calendar year.

Mr. Courtney also reported that the recordkeeper made changes to the installment payment process in February that allow participants to start, stop, or change their installment payment with one call to the ThriftLine. The minimum amount for installment payments is 25 dollars.

Mr. Courtney provided an update on the unexpected shutdown of a key Treasury system on January 14, 2023. That shutdown did not affect the TSP's ability to issue disbursements to participants; however, the shutdown did impact the ability to help participants calling about the status of their disbursements or requesting reissues. The backlog of payment reissues grew during this time from more than 400 to over 1,400 by January 31, when Treasury restored service. Mr. Courtney reported that backlog has been cleared.

b. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. See "January 2023 Investment Program Review" (attached). For the month of January 2023, BlackRock's performance for the F Fund exceeded the Fixed Income Index by 17 basis points, primarily due to a difference in the timing of pricing by the index provider and by the manager that occurred on December's last trading day. Its performance for the C Fund matched the Large Cap Index; its performance for the S Fund was ahead of the Small Mid Cap Index by three basis points, mostly due to securities lending; and for the I Fund, BlackRock outperformed the International Index by 30 basis points, primarily due to fair value pricing.

Next, Mr. McCaffrey provided that State Street's performance for the F Fund for the month of January outperformed the Fixed Income Index by 20 basis points, also primarily due to a difference in the timing of pricing by the index provider and by the manager on the final trading day of December. Its performance for the C and S Funds was in line with their respective benchmarks, and its performance for the I Fund was better than the International Index by 50 basis points, primarily due to fair value pricing.

Mr. McCaffrey then reported that January's market focus continued to be on the path of future Fed policy changes, hopes for lower inflation, and possibilities for a future economic slowdown. Stocks and bonds rallied significantly as treasury bond yields fell and many investors returned to risk taking. As a result, all of the TSP's core equity Funds showed substantial gains, as did the F Fund and the entire L Funds line-up.

Mr. McCaffrey also reported that stocks and bonds are losing ground so far in February as interest rates have continued to move higher. Through Monday, February 27, the C Fund has lost 2.15 percent, the S Fund has lost 1.65 percent, the I Fund is down 2.33 percent, the F Fund is behind by 2.65 percent, and the G Fund has earned a positive 0.27 percent.

Finally, Mr. McCaffrey shared that L Fund participation continued to grow in January by a little over 14,000 participants. This development was expected, as the L Funds are the default investment option for new enrollees. Inter-fund transfers (IFTs) remained at a relatively low level. Approximately 1.9 percent of participants moved money between funds, which is slightly below the historical median. This means participants are sticking with their investment programs.

In response to a question from Chair Gerber, Mr. McCaffrey noted that the 2055, 2060, and 2065 L Funds were seeing the largest growth due to automatic enrollment of new, younger employees.

c. Legislative Report

Ms. Weaver began by reporting that the House of Representatives and Senate have named the subcommittees that would have oversight over the TSP. The House subcommittee is named House Government Operations and the Federal

Workforce, chaired by Representative Pete Sessions from Texas with ranking member Representative Kweisi Mfume from Maryland, and the Senate subcommittee is named Government Operations and Border Management, chaired by Senator Kyrsten Sinema from Arizona with ranking member Senator James Lankford from Oklahoma.

Ms. Weaver also reported that the House would begin debating a bill that would prevent the Department of Labor from enforcing its new regulation allowing fiduciaries to consider Environmental, Social, and Governance (ESG) issues when making investment decisions on behalf of clients. She expects the bill to pass. The Senate is tentatively scheduled to vote on a similar bill on March 1, 2023, and while it is very possible that bill will pass, neither House would have enough votes to overturn a possible veto. This bill would not impact the TSP, as it would apply only to ERISA plans.

Finally, Ms. Weaver reported that the Treasury Department invoked its authority to employ emergency measures, meaning it is unable to fully invest in the G Fund due to the debt ceiling. Information has been posted to tsp.gov to inform participants, and the Agency's Office of the Chief Financial Officer is engaged with Treasury daily to monitor the situation.

5. Quarterly Metrics Report.

Dennis McNulty, Branch Chief for Strategic Performance in the Office of Planning and Risk, provided the key performance indicators for the first quarter of Fiscal Year 2023 (FY23). See "FRTIB Performance Metrics 1st Quarter FY23" (attached). Mr. McNulty first noted that, due to the transition to Converge, FY22 metrics were extended one quarter to allow additional time to establish FY23 metrics, making this the final report on FY22 metrics.

Mr. McNulty reported that the Agency is below the desired target of 80 percent for the Blended Retirement System (BRS) full matching contribution rate for the full quarter. However, the full matching rate continues to increase, and the Agency expects it to keep trending upward due to the five percent automatic enrollment deferral rate.

Mr. McNulty also reported that on December 16, 2022, the Agency received a trade confirmation eight minutes late due to connectivity issues with State Street. Neither the actual investments nor participants were impacted, but as a result, the Agency missed its target of performing the daily investment of the F, C, S, and I Funds by 2 PM Eastern time every day.

6. Adjourn.

Whereupon there being no further business, the following motion was made, seconded, and adopted without objection and Chair Gerber adjourned the meeting at 12:03 p.m.

MOTION: That this meeting be adjourned.

Digitally signed by DHARMESH VASHEE
Date: 2023.04.10 11:31:24 -04'00'

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Investment Manager Annual Service Review (State Street Global Advisors)
2. Recordkeeper Service Review (Accenture Federal Services)
3. Thrift Savings Fund Statistics January 2023
4. January 2023 Investment Program Review
5. FRTIB Performance Metrics 1st Quarter FY23