



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

November 14, 2023

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on November 14, 2023, at 10:00 a.m., Eastern Standard Time. The meeting was held at 77 K Street NE in Washington, D.C., and was open to the public via teleconference. In attendance were Dana K. Bilyeu of Oregon (by telephone), member; Leona M. Bridges of California, member; Stacie Olivares of California, member (by telephone); 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 Participant Experience; Sean McCaffrey, Chief Investment Officer; David Heimann, Acting Chief Information Officer; Thomas Brandt, Chief Risk Officer; and Trevor Williams, Chief Financial Officer.

Welcome and Introductions.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:00 a.m. and welcomed everyone present to the meeting.

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

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

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

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

2. Monthly Reports.

a. Participant Report

Mr. Courtney reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics October 2023" (attached). He reported that more participants are borrowing from their TSP accounts than one year ago, with a 25 percent increase in new general purpose loans in September over the same month in 2022. August of this year recorded the highest monthly number of new loans in more than three years. There was an initial uptick in new loans after Converge went live, because participants may

now take out two general purpose loans. But the more recent increase is consistent with those of other 401(k) plans, suggesting current economic conditions as the driver.

Mr. Courtney further reported that TSP mobile application downloads crossed the one-million mark in October, and 15 percent of participants use the application to log into their TSP account. Lastly, the recordkeeper has met the contractually required threshold of at least 90 percent participant satisfaction rate for the months of August, September, and October.

b. Investment Review

Mr. McCaffrey reviewed the monthly performance relative to benchmarks for the TSP's investment managers. See "October 2023 Investment Program Review" (attached). For both BlackRock and State Street, the F, C and S Funds' performance matched the performance of their respective indices. BlackRock's and State Street's management of the I Fund resulted in performance exceeding the International Index by 92 basis points and 51 basis points, respectively, primarily due to fair value pricing.

Mr. McCaffrey reported that during October, stock markets continued to feel the weight of interest rate uncertainty. The C and S Funds posted losses. The I Fund also finished lower, due in part to the strength of the U.S. dollar. The increase in interest rates contributed to a loss in the F Fund, and all L Funds finished lower.

Regarding year-to-date performance under BlackRock management, the F Fund exceeded its index by 21 basis points, due primarily to a difference in the timing of year-end pricing for the index versus the manager's pricing; the C Fund was in line with the Large Cap Index; the S Fund outperformed its index by 11 basis points, due primarily to securities lending; and the I Fund outperformed its index by 77 basis points, primarily due to tax advantage and fair value pricing.

Regarding year-to-date performance under State Street management, the F Fund was ahead of its index by 18 basis points, primarily due to the year-end pricing difference; the C Fund was in line with the Large Cap Index; the S Fund's performance exceeded its index by nine basis points, due primarily to securities lending; and performance of the I Fund was ahead of its index by 90 basis points, primarily due to tax advantage and fair value pricing.

For the month-to-date period, as of market close on November 13, 2023, the C Fund was ahead 5.25 percent, the S Fund gained 3.92 percent, and the I Fund increased 3.63 percent. The F Fund has shown a positive 2.05 percent, and the G Fund has earned 0.18 percent.

c. Legislative Report

Ms. Weaver stated that the House of Representatives will vote on a continuing resolution (CR) that would fund the federal government in a laddered

approach. Speaker Mike Johnson was expected to bring the CR under a suspension of House of Representatives rules, which then requires a two-thirds majority to pass. If approved, and if the Senate passes the bill and President Biden signs the CR, four appropriations bills would fund the government through January 19, 2024, and eight appropriations bills would be funded through February 2, 2024. If the CR does not pass and the federal government were to shut down, Ms. Weaver stated, and Chair Gerber underscored, the FRTIB would remain open for business and be prepared to serve TSP participants.

3. Quarterly Metrics Report.

Mr. Brandt provided an overview of the Agency's performance metrics for the fourth quarter of fiscal year 2023. See "FY23 Q4 Metrics Report" (attached). Mr. Brandt reported that the participant satisfaction rate surpassed the target, and the Agency met all performance metrics for the 4th quarter. Chair Gerber congratulated the team for finishing the fiscal year on such a positive note.

4. Internal Audit Update.

Barbara Holmes, Chief Audit Executive, provided the internal audit update. See "Internal Audit Update" (attached). Ms. Holmes reported that the E-Travel Audit Report and Interagency Agreement Audit Report were complete with the latter report scheduled to be presented to the Board in January 2024. Audit work continued on the monitoring of Converge; Ms. Holmes expected fieldwork to be complete in November and the report to be drafted in December.

Ms. Holmes also presented a draft 2024 and 2025 internal audit plan and stated that she will present the plan for Board approval in January 2024. She welcomed Board input and comment to which Chair Gerber agreed.

Regarding the E-Travel Audit Report, Ms. Holmes reported there were several recommendations for management's consideration but no Notice of Findings and Recommendations (NFR). Reviewing the total number of open findings, Ms. Holmes reported the total number did not change because the two most recently completed audit reports included no NFRs. In 2024, she intends to conduct an audit of prior year audit findings to refresh the status of open findings.

Lastly, Ms. Holmes continues to work with the Agency's contracting office to place the call orders for the 2024 FISMA audit and the 2024 internal audit plan as well as completing the 2024 and 2025 plan. In response to a question from Chair Gerber, Ms. Holmes confirmed that she has the resources to execute her audit plans effectively.

5. Participant Survey Report.

Mr. Brandt provided the results of the Annual Participant Survey. See "2023 FRTIB Participant Satisfaction Survey" (attached). The survey is intended to

gauge overall satisfaction of participants with the TSP. It was sent to a sample of TSP participants in March through May 2023.

The overall satisfaction rate for 2023 was 82 percent, down from 87 percent in 2022. While it is a decline from 2022, Mr. Brandt noted that it compares favorably against the industry benchmark from the Employee Benefit Research Institute. Mr. Brandt also noted that there is a close correlation between overall satisfaction with the TSP and consumer confidence. As consumer confidence trends upward or downward, so too does the TSP satisfaction rate. Consumer confidence trended downward in 2023.

Mr. Brandt reported satisfaction rates of various TSP participant cohorts and key takeaways of the survey results. The most satisfied TSP participant by career stage is late-career and retired participants, while early-career participants are less satisfied. The Blended Retirement System participants are the least satisfied compared to participants in other federal retirement systems, especially with respect to the ability to take a loan and the flexibility of withdrawal options. In addition, the survey found that participants who earn less than 40,000 dollars are the least satisfied when compared to participants earning a higher income. Mr. Brandt noted these results present opportunities for participant education.

Account security and annual statements continue to be the most highly rated aspects of the TSP. Participant satisfaction slightly increased in 2023 with participants' ability to obtain a participant loan and transfer money from other plans. Mr. Brandt noted a decline around the variety of investment options, despite the introduction of the mutual fund window. Satisfaction with the Plan information on the TSP website saw the steepest decline.

The annual account statement and Plan information on the TSP website remain the top drivers of overall satisfaction in 2023. The survey also measured satisfaction with communication channels. One-fourth of participants indicated they use the ThriftLine, and more than three-fourths found the ThriftLine representative and the automated system to be useful. Annual statements, My Account and general Plan information on the TSP website continue to be the most utilized communication channels. Net usefulness of all communication channels dropped, with the largest decrease in speaking to a ThriftLine representative.

In response to a question from Chair Gerber, Mr. Brandt indicated that the Agency does share the participant satisfaction survey results with the recordkeeper.

The survey asked participants to provide feedback on potential TSP offerings. Participants indicated that they would most likely use a tool to assist with withdrawal decisions and were least likely to use financial advisory services. The survey also asked participants' views relating to in-plan Roth conversions. Twenty-eight percent of participants indicated they were likely to elect to do an in-plan conversion, which is a decline from 50 percent last year.

Participants provided approximately 1,900 comments to the survey's open-ended question that asked them to name one thing that the TSP could do better to meet retirement savings and planning needs. Twelve percent of the responses related to providing better instructions and information, and nine percent related to making the website more user-friendly.

6. Office of Planning and Risk's Annual Report.

Mr. Brandt presented the annual report for the Office of Planning and Risk (OPR). See "OPR Annual Update" (attached). He presented an organizational chart of OPR showing just under 30 full-time employees. Mr. Brandt described the responsibilities of each of OPR's four divisions: the Strategy Division, Business Intelligence Division, Project Management Division, and Enterprise Risk and Internal Controls Division.

The Strategy Division helps facilitate the development and execution of the Agency's Strategic Plan and Annual Operations Plan. The Business Intelligence Division houses the Agency's Chief Data Officer (CDO) and manages the Agency's data, oversees and establishes data governance, and helps to leverage data to support business operations. In response to a question from Chief Gerber, Mr. Brandt stated that the CDO is part of a broader CDO Council across government and interacts frequently with the recordkeeper on data needs for the Agency.

The Project Management Division provides project governance and oversight and management of project activities across the Agency. The Enterprise Risk and Internal Controls Division develops the Agency's Enterprise Risk Profile and establishes the Risk Appetite Statement while also coordinating vendor risk assessments. This division also oversees internal controls, works to develop the Agency's Statement of Assurance, and conducts brand monitoring for FRTIB and TSP brands. In response to a question from Chair Gerber, Mr. Brandt explained that his office finds instances where third parties do not use a clear disclaimer on their website to state that the company or organization is not affiliated with the TSP or FRTIB. OPR sends enforcement letters when necessary to obtain compliance.

Mr. Brandt also described the Social Science Program, which researches and designs outreach to improve participant outcomes and reviews research that can help enhance policy approaches and organize efforts to understand participants' viewpoints. The Social Science update will be provided in next month's Board meeting. In response to a question from Chair Gerber, Dr. Elizabeth Perry, Chief Scientific Advisor, explained that she regularly collaborates with the recordkeeper to obtain data and is familiar with the work that the investment managers are doing in social science.

7. TSP Investment Option Benchmark Study.

Mr. McCaffrey discussed the benchmark study that is conducted every few years to determine the continued suitability of the benchmark indices used by the TSP's four core investment funds. This year, the FRTIB engaged Aon Investments (Aon) to conduct the study. Aon is knowledgeable about the full range of widely available indices used by institutional investors. The FRTIB asked Aon to consider the potential applicability of these indices to the TSP core funds and, if necessary, recommend a change. Mr. McCaffrey then introduced representatives from Aon, Russ Ivinjack and Raneen Jalajel. See "Aon's Benchmarking Study for the Thrift Savings Plan" (attached). While Mr. Ivinjack discussed the executive summary, he noted there is a fuller report that provided extensive characteristics on the indices reviewed as well as a return and risk analysis.

For the benchmark review, Aon examined the methodology of the indices and opportunities covered as well as investability and liquidity. Aon noted that the TSP can impact the marketplace if there are large amounts of trading given its size. Aon reviewed such trades and the potential impact. It also reviewed peer practices specifically related to the I Fund. Finally, with any change in recommendation, Aon also reviewed the potential transaction costs to weigh the risk-return benefit of making such a change.

Mr. Ivinjack concluded by previewing Aon's recommendations: Aon recommended no change to the benchmarks for the C, S, and F Funds. For the I Fund, Aon recommended a move from the EAFE index, which covers parts of the non-US developed market, to an index that would additionally include small cap, Canada and emerging markets.

Ms. Jalajel more specifically discussed the indices and recommendations. For the C and S Funds, Aon evaluated a broad range of U.S. large cap indices and small- and mid-cap indices. Aon narrowed that evaluation and focused on two index combinations: the S&P 500 and the Dow Jones U.S. Completion Index, the current indices for the C and S Funds, respectively, against the alternative combination of Russell 1000 Index and Russell 2000 Index, for the C and S Funds, respectively. Ms. Jalajel stated that it is Aon's recommendation for the TSP to maintain the S&P 500 Index for the C Fund and the Dow Jones U.S. Completion Index for the S Fund for several reasons. First, these indices provide complete market coverage. Second, they are widely used across the investment community and across major passive providers. And finally, the S&P 500 is highly recognized among non-investment professionals.

Ms. Jalajel next discussed the F Fund benchmark. Aon reviewed five broad fixed income benchmarks and then narrowed the review to focus on three U.S. fixed income indices. The TSP's current index is the Bloomberg U.S. Aggregate Index and provides exposure to investment grade bonds. The other two indices reviewed were FTSE U.S. Broad Investment Grade Bond Index and the Bloomberg U.S. Universal Index. Both provide exposure to investment grade bond market, but the latter also

provides exposure to below investment grade bonds and emerging market bonds. Aon's recommendation is to remain with the current Bloomberg U.S. Aggregate Index for several reasons. First, the current benchmark is widely utilized, while the other two indices have not gained acceptance in the investment community for passive benchmarks. In addition, the current index provides broad coverage of the fixed income market and contains only investment grade bonds. Finally, it lacks foreign currency exposure, eliminating some of the volatility that comes with foreign currency.

Ms. Jalajel discussed the I Fund benchmark. Aon reviewed nine international indices, which were narrowed to five, of which Ms. Jalajel discussed four. The current index, the MSCI EAFE Index, provides 55 percent exposure to international large and mid-cap stocks, primarily in the developed markets except Canada. The MSCI World ex USA IMI provides 71 percent exposure to large, mid, and small cap stocks within developed markets, including Canada. The MCSI ACWI ex USA IMI includes large, mid, and small cap stocks in developed and emerging markets and provides 99 percent exposure. The MSCI ACWI IMI ex USA ex China ex Hong Kong provides 90 percent market exposure and focuses on the full international equity opportunity but excludes China and Hong Kong and addresses the operational complexity in today's market while also reducing the risk of investing in the full set of securities and facing the potential of later being forced to sell out of specific markets.

Ms. Jalajel stated that each of these benchmarks better align with the Federal Employees' Retirement System Act (FERSA), which requires that the I Fund have a reasonably complete market representation of the international equity market, than the current index. Ms. Jalajel then highlighted the incremental exposure the TSP would obtain by adding stocks from Canada, emerging markets and international small caps.

Aon's recommendation is to change from the MSCI EAFE Index to the MSCI ACWI IMI ex USA ex China ex Hong Kong Index. Aon estimated the transition cost to be 80 million dollars. Aon then compared the securities lending yield between the current index and the recommended index and estimated the gained yield from securities lending to be 30 million dollars. Ms. Jalajel explained that the securities lending yield increase should cover the cost of the transition over the next two to three years.

Aon also reviewed additional considerations when making its recommendation. Aon did not have liquidity concerns related to the size of the TSP's cash flows, as they were within the cash allocation that TSP's investment managers hold for liquidity needs. Aon also considered operational complexity. There are investment restrictions in certain Chinese segments and Russian securities. Such restrictions can incur transaction costs and cause investors to force sell out of those sectors. These factors are magnified for the TSP given its size, which is why Aon recommended the change to the MSCI ACWI IMI ex USA ex China ex Hong Kong Index. In response to a question from Member Bridges, Mr. Ivinjack stated that Taiwan is included in the new index.

Mr. McCaffrey then presented the Office of Investments' (OI) recommendations to the Board. See "OI I Fund Change Memo to the Board" (attached). OI agrees with Aon's recommendation to change the I Fund benchmark to the MSCI ACWI IMI ex USA ex China ex Hong Kong Index. OI reviewed Aon's detailed report and considered the benefits of significantly broader market exposure and diversification, which included the increased likelihood of more favorable risk-adjusted returns over the long term and improved alignment with FERSA in addition to expanded coverage by including stocks from Canada and emerging market countries and small cap stocks. It would also increase non-U.S. market cap exposure from 55 percent to 90 percent. If approved, the FRTIB would transition the I Fund assets during the calendar year 2024.

Member Bilyeu noted that Aon's report is extensive and appreciated the ability to include a better representation of the international market for TSP participants. She further noted that it is important for the Board to meet FERSA's requirement by investing in as close to a complete securities set as possible, within risk and other parameters. In response to questions from Member Bilyeu, Mr. McCaffrey confirmed that the I Fund would likely invest in a sample of international securities that represents the index, which is similar to how the TSP invests in its F and S Funds. Mr. McCaffrey also confirmed an expansion to 90 percent exposure. Member Bilyeu stated she was ready to move forward. Member Olivares also noted her appreciation of the analysis and looked forward to more favorable risk-adjusted returns.

The Board members then made, seconded, and adopted the following motion without objection:

MOTION: That the FRTIB's proposal to transition from the MSCI EAFE Index to the MSCI ACWI IMI ex USA ex China ex Hong Kong Index in calendar year 2024 is approved.

8. Adjourn.

On a vote taken by the Chair, the members closed the meeting at 11:32 a.m. to enter into executive session.

At 12:37 p.m., upon completion of the executive session, the members reconvened the open portion of the meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chair Gerber adjourned the meeting at 12:37 p.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics October 2023
2. October 2023 Investment Program Review
3. FY23 Q4 Metrics Report
4. Internal Audit Update
5. 2023 FRTIB Participant Satisfaction Survey
6. OPR Annual Update
7. a. Aon Benchmarking Study for the Thrift Savings Plan - Powerpoint
b. Aon Benchmarking Study for the Thrift Savings Plan – Full Report
8. OI I Fund Change Memo to Board