



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

MEMORANDUM FOR BOARD MEMBERS

GERBER, BILYEU, BRIDGES,
AND OLIVARES

FROM: Ravindra Deo, Executive Director

DATE: January 13, 2023

SUBJECT: December 2022 Investment Program Review

INTRODUCTION

This report reviews key aspects of the TSP's investment program, including performance and tracking error, interfund transfer activity, and participant allocations.

RETURNS AND TRACKING ERRORS

The tables below contain the monthly and annual returns and tracking errors for the F, C, S, and I Funds and for the separate accounts managed by BlackRock and State Street. Due to rounding, the tracking errors may not match the differences in returns.

December 2022 Returns and Tracking Errors

		<u>Fixed Income</u>	<u>Large Cap</u>	<u>Small Mid Cap</u>	<u>International</u>
		<u>(F Fund)</u>	<u>(C Fund)</u>	<u>(S Fund)</u>	<u>(I Fund)</u>
Return (%)	Index	-0.45	-5.76	-6.53	0.08
	BlackRock	-0.64	-5.76	-6.54	-1.80
	State Street	-0.66	-5.76	-6.54	n/a
	TSP Fund (Net)	-0.65	-5.78	-6.55	-1.85
Tracking Error vs Index (%)	BlackRock	-0.18	0.00	-0.01	-1.88
	State Street	-0.20	0.00	-0.01	n/a
	TSP Fund	-0.20	-0.01	-0.02	-1.93

BlackRock's performance for the F Fund lagged the Fixed Income Index by 18 basis points, primarily due to a difference in the timing of pricing by the index provider and by BlackRock on the final trading day of the month. Its performance for the C and S Funds was in line with the Funds' respective indices for the month. For the I Fund, BlackRock lagged the International Index by 188 basis points, primarily due to fair value pricing.

State Street's performance for the F Fund lagged the Fixed Income Index by 20 basis points, primarily due to a difference in the timing of pricing by the index provider and by State Street on the final trading day of the month. Its performance for the C and S Funds was in line with the Funds' respective indices for the month.

After market close on Friday, December 9, 2022, approximately 20% of the I Fund's assets were transferred from BlackRock to State Street. Following the transfer of assets, from market close on December 9 to market close on December 30 (the final trading day of the month), the International Index fell 1.72%. The I Fund assets managed by BlackRock fell 1.10% during that

span, while the I Fund assets managed by State Street fell 1.30%. The differences between the managers' returns and those of the International Index during that span were primarily driven by fair value pricing. Similarly, the difference in the performance of BlackRock and State Street primarily resulted from differences in the two managers' methodologies for fair value pricing.

2022 Annual Returns and Tracking Errors

		<u>Fixed Income</u>	<u>Large Cap</u>	<u>Small Mid Cap</u>	<u>International</u>
		<u>(F Fund)</u>	<u>(C Fund)</u>	<u>(S Fund)</u>	<u>(I Fund)</u>
Return (%)	Index	-13.01	-18.11	-26.54	-14.45
	BlackRock	-12.70	-18.08	-26.20	-13.86
	State Street	-13.09	-18.11	-26.25	n/a
	TSP Fund (Net)	-12.83	-18.13	-26.26	-13.94
Tracking Error vs Index (%)	BlackRock	0.31	0.03	0.34	0.59
	State Street	-0.08	0.00	0.29	n/a
	TSP Fund	0.18	-0.02	0.28	0.51

Year-to-date, BlackRock's performance for the F Fund was ahead of the Fixed Income Index's return by 31 basis points, primarily due to securities lending. For the C Fund, BlackRock outperformed the Large Cap Index by 3 basis points, primarily due to securities lending. For the S Fund, BlackRock exceeded the Small Mid Cap Index's return by 34 basis points, primarily due to securities lending. Its performance for the I Fund was ahead of the International Index by 59 basis points, primarily resulting from tax advantage.

Year-to-date, State Street's performance for the F Fund lagged the Fixed Income Index's return by 8 basis points, primarily due to a difference in the timing of pricing by the index provider and by State Street on the final trading day of the month. 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 29 basis points, primarily due to securities lending.

TSP Net Returns as of December 31, 2022

	1-Year	3-Year	5-Year	10-Year
G Fund	2.98%	1.77%	2.09%	2.08%

	1-Year	3-Year	5-Year	10-Year
F Fund	-12.83%	-2.62%	0.10%	1.29%
Bloomberg Barclays US Agg Bond Index	-13.01%	-2.71%	0.02%	1.06%
Tracking Error	0.18%	0.09%	0.08%	0.24%

	1-Year	3-Year	5-Year	10-Year
C Fund	-18.13%	7.62%	9.39%	12.57%
S&P 500 Index	-18.11%	7.66%	9.42%	12.56%
Tracking Error	-0.02%	-0.04%	-0.04%	0.01%

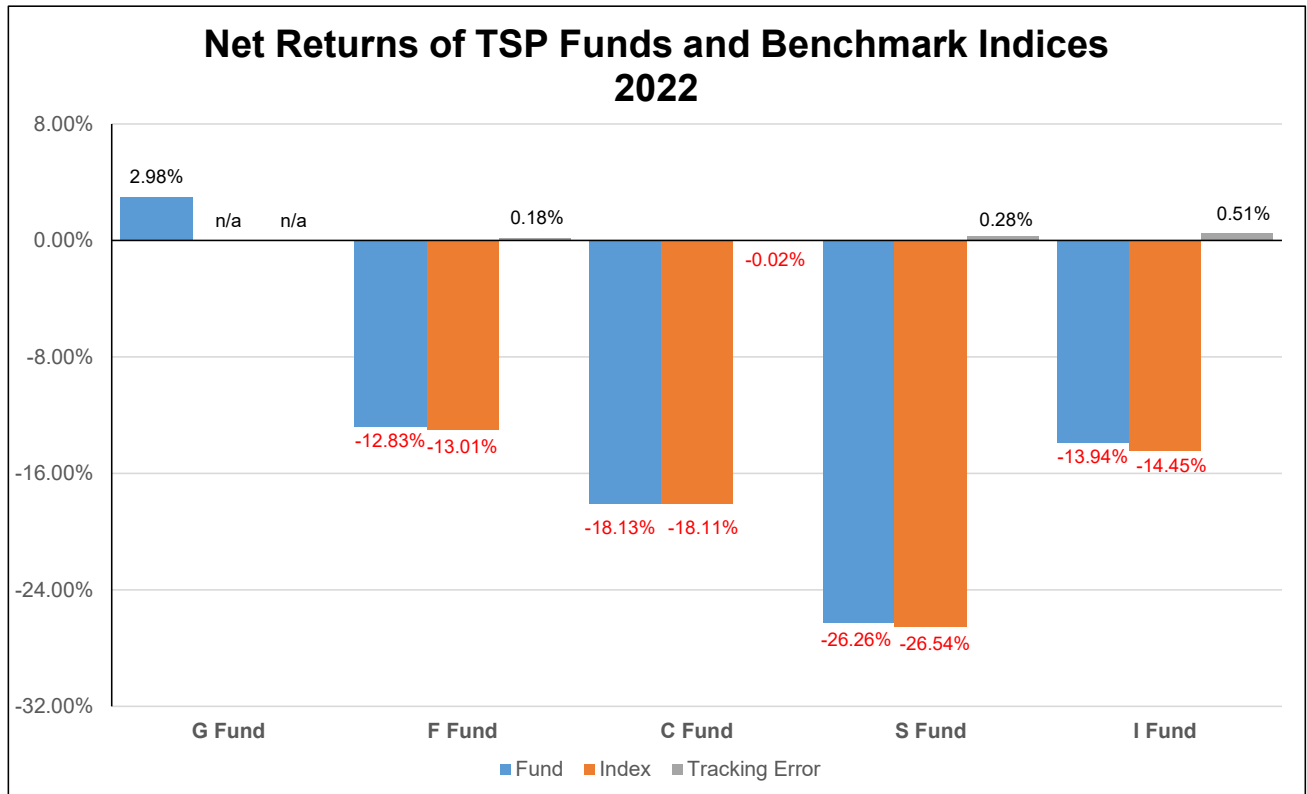
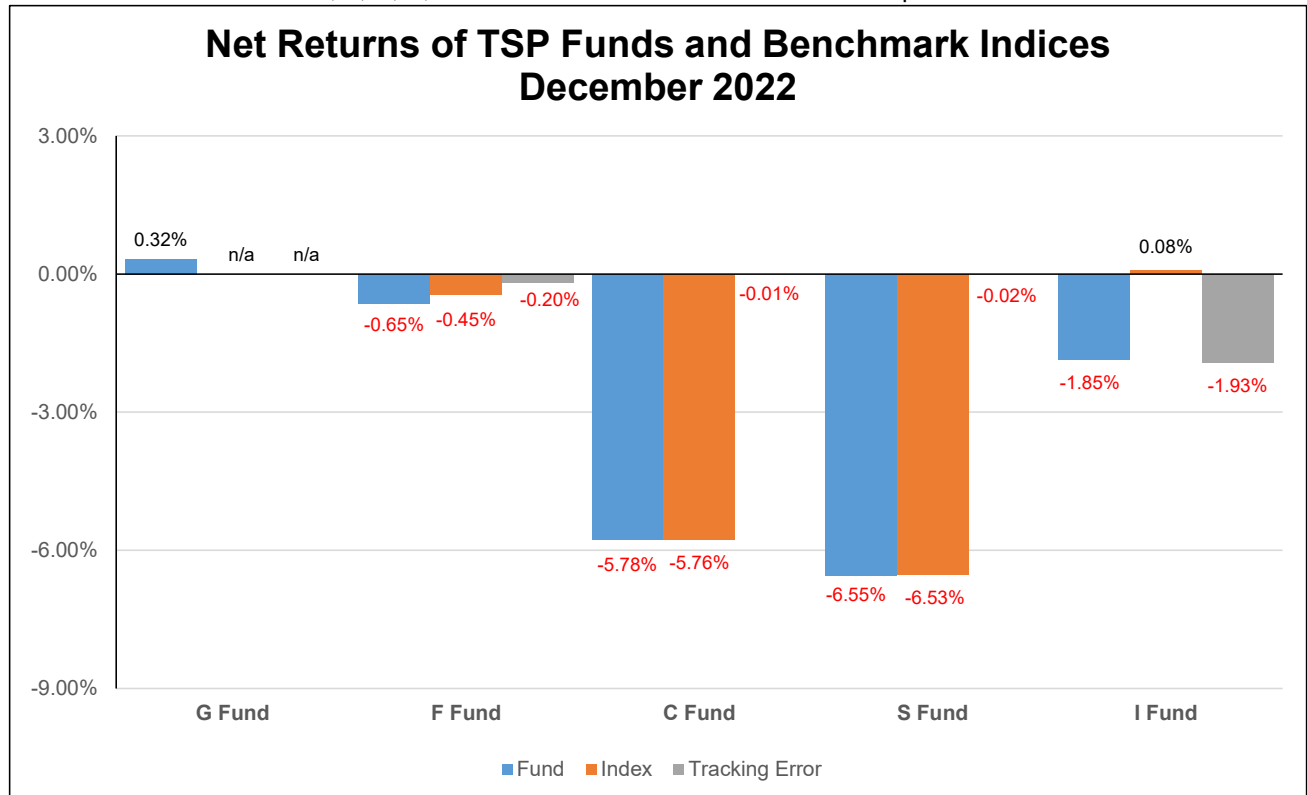
	1-Year	3-Year	5-Year	10-Year
S Fund	-26.26%	3.02%	4.89%	9.72%
Dow Jones US Completion TSM Index	-26.54%	2.94%	4.76%	9.49%
Tracking Error	0.28%	0.08%	0.13%	0.23%

	1-Year	3-Year	5-Year	10-Year
I Fund	-13.94%	1.23%	1.93%	4.95%
MSCI EAFE Index	-14.45%	0.87%	1.54%	4.67%
Tracking Error	0.51%	0.37%	0.38%	0.28%

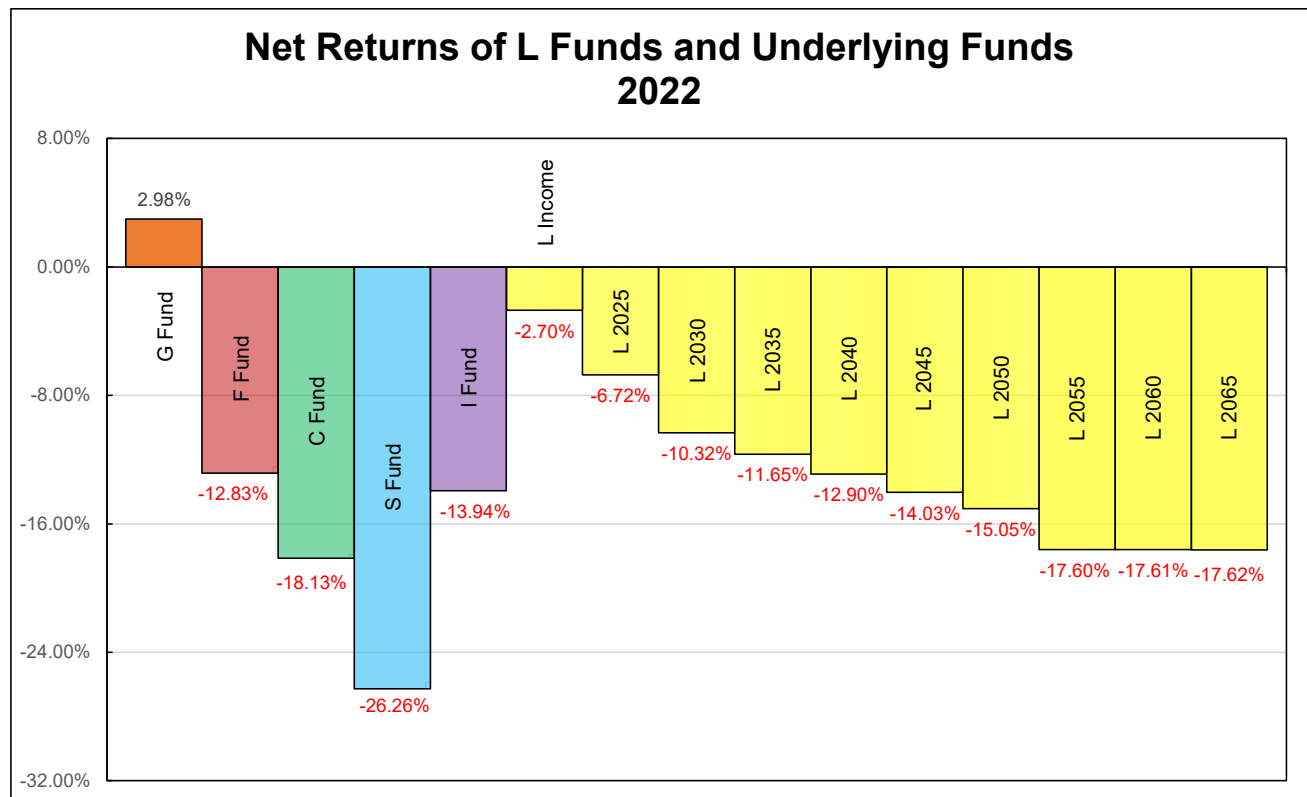
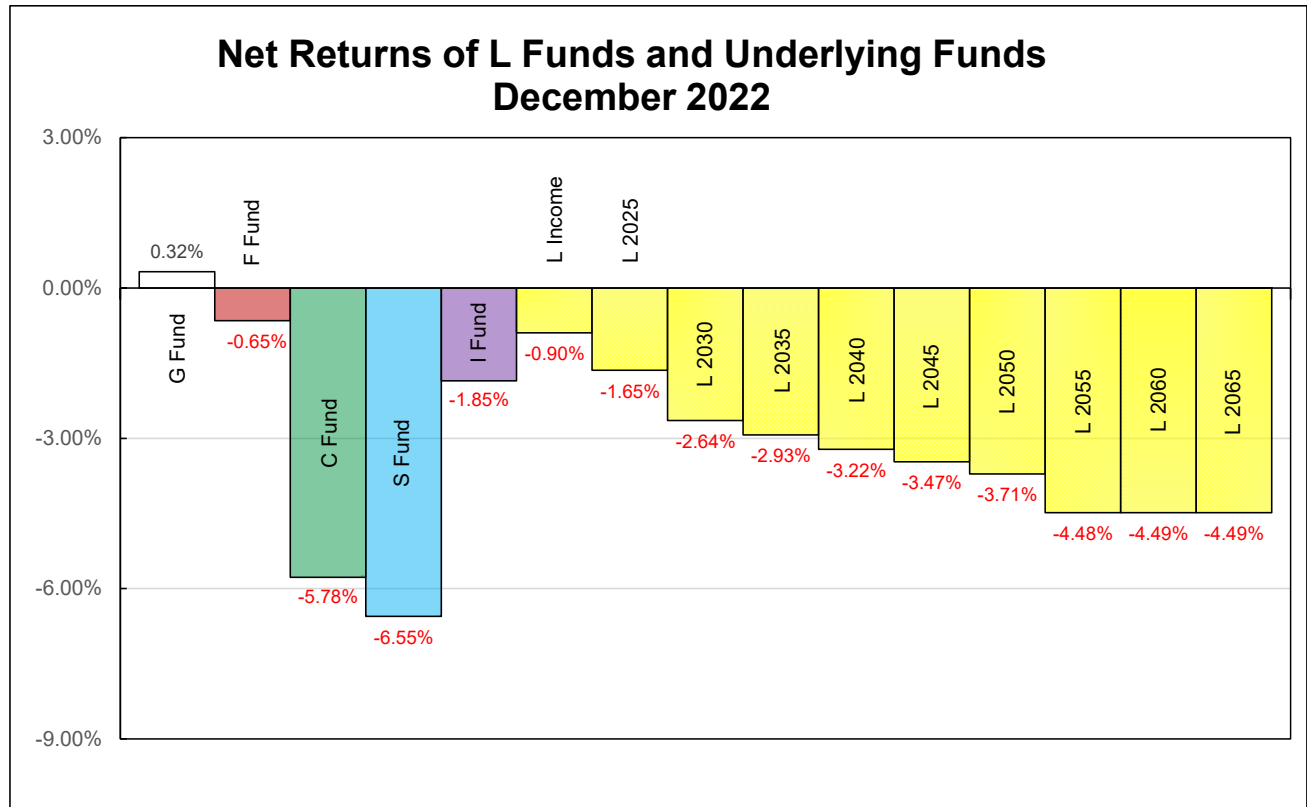
	1-Year	3-Year	5-Year	10-Year
L Income Fund	-2.70%	2.55%	3.17%	3.81%
L 2025 Fund	-6.72%	N/A	N/A	N/A
L 2030 Fund	-10.32%	3.89%	4.92%	7.19%
L 2035 Fund	-11.65%	N/A	N/A	N/A
L 2040 Fund	-12.90%	4.12%	5.32%	7.97%
L 2045 Fund	-14.03%	N/A	N/A	N/A
L 2050 Fund	-15.05%	4.29%	5.63%	8.63%
L 2055 Fund	-17.60%	N/A	N/A	N/A
L 2060 Fund	-17.61%	N/A	N/A	N/A
L 2065 Fund	-17.62%	N/A	N/A	N/A
Inception date for L 2025, L 2035, L 2045, L 2055, L 2060, L 2065: July 1, 2020				

Performance of TSP Funds

The charts below show the G, F, C, S, and I Fund net rates of return vs. their respective benchmark indices.

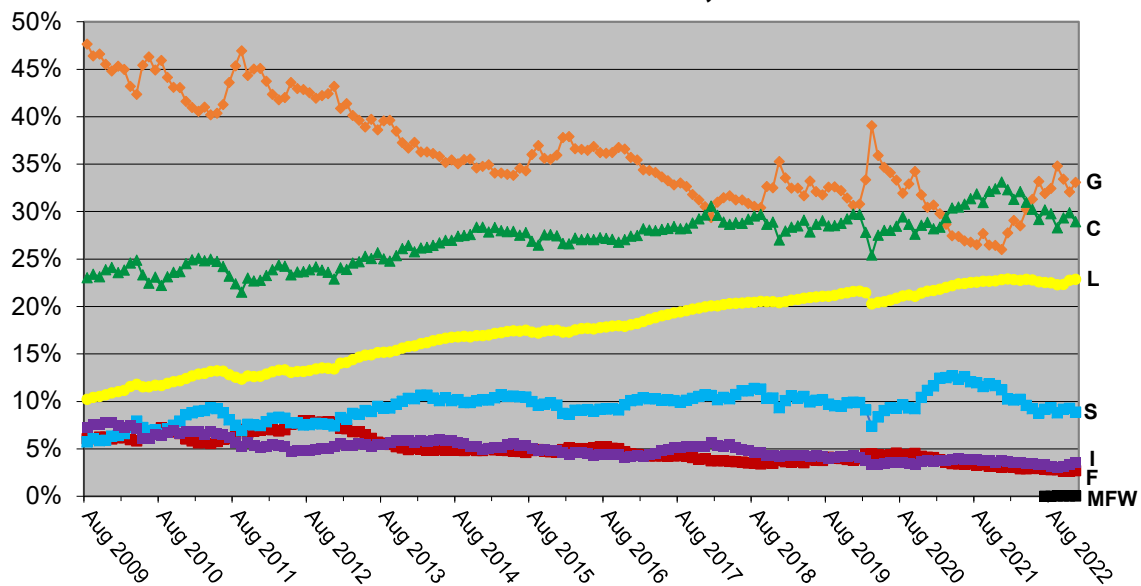


Net rates of return for the L Funds are shown below, along with comparable returns for the G, F, C, S, and I Funds.



Asset Allocation

Participant Asset Allocation History as of December 31, 2022

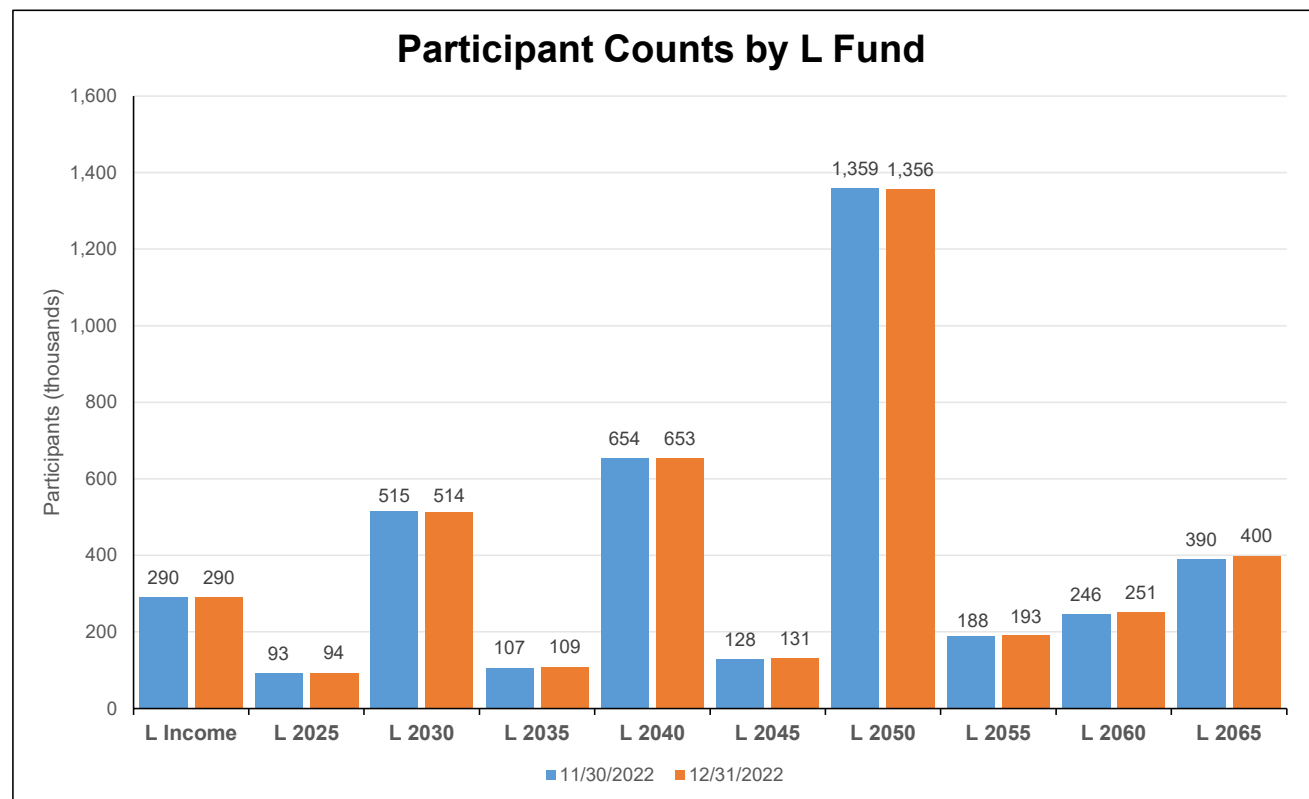
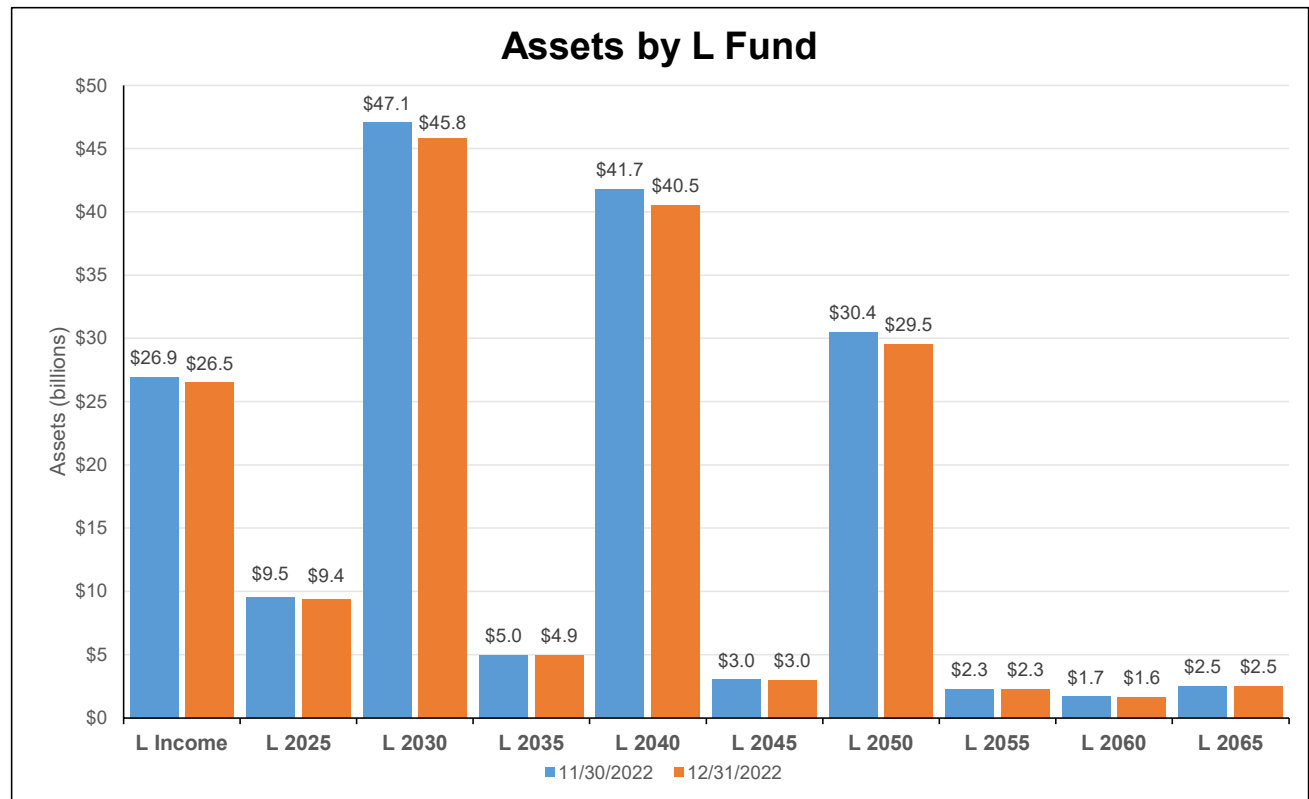


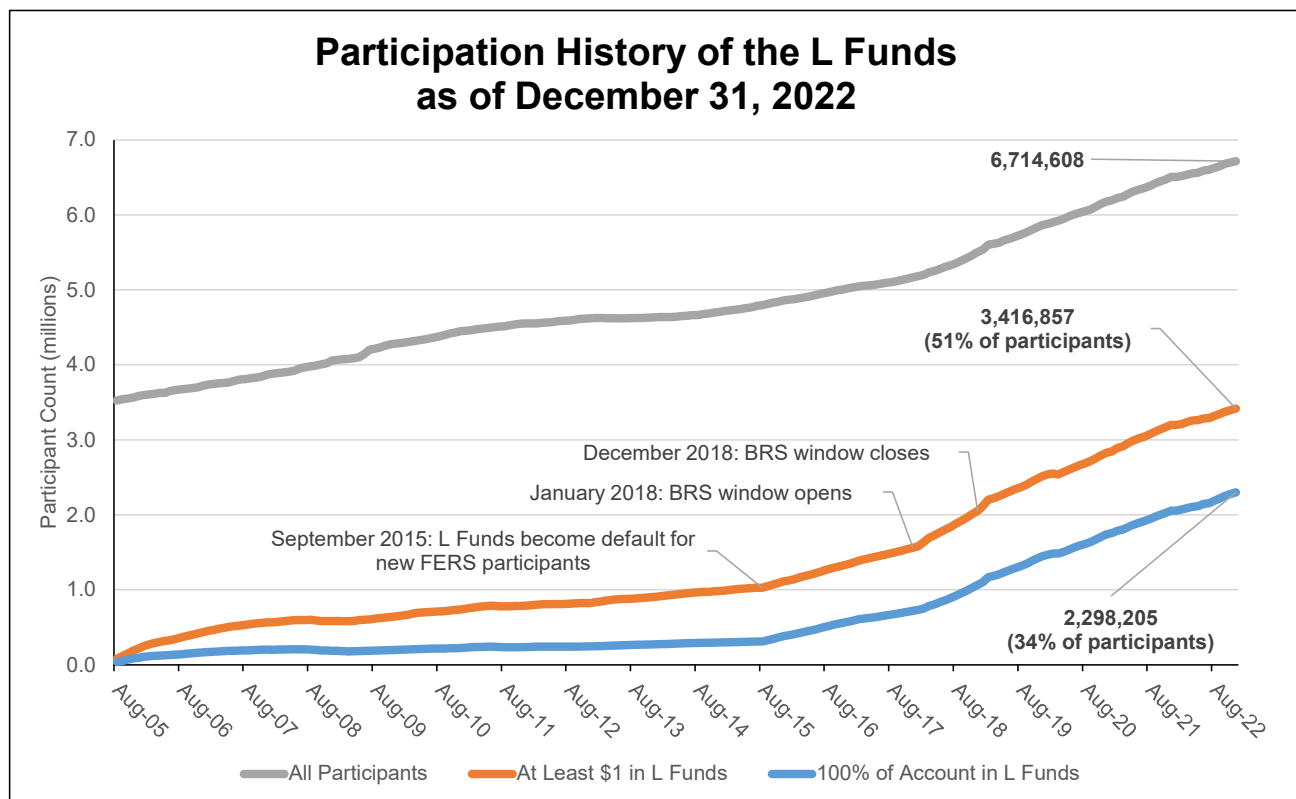
Asset Allocation as of December 31, 2022

	Participant Allocation		Individual TSP Funds	
	Assets (Billions)	Share of Total	Assets (Billions)	Share of Total
G Fund	\$240.1	33.1%	\$292.6	40.3%
F Fund	\$19.5	2.7%	\$30.2	4.2%
C Fund	\$210.0	28.9%	\$262.9	36.2%
S Fund	\$64.4	8.9%	\$78.5	10.8%
I Fund	\$25.7	3.5%	\$61.6	8.5%
L Funds	\$166.0	22.9%	n/a	n/a
<u>MFW</u>	<u>\$0.1</u>	<u>0.0%</u>	<u>\$0.1</u>	<u>0.0%</u>
Total	\$725.9	100.0%	\$725.9	100.0%

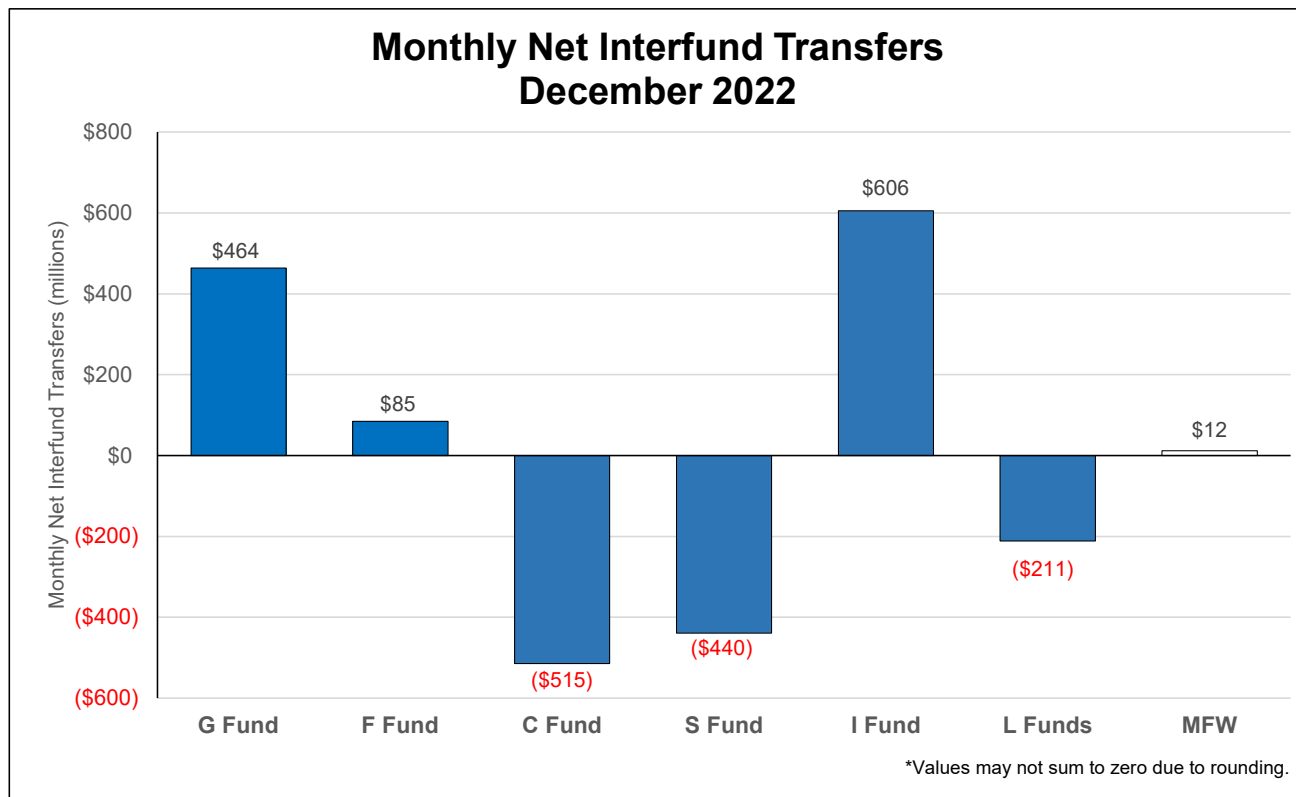
*Components may not sum to totals due to rounding.

Lifecycle (L) Funds





Interfund Transfer Activity



PROXY VOTING – THIRD QUARTER 2022

An audit of BlackRock's proxy voting conducted by ISS found no exceptions to BlackRock's established guidelines during the third quarter of 2022. Likewise, an audit of State Street's proxy voting conducted by ISS found no exceptions to State Street's established guidelines during the third quarter of 2022. Copies of the audit reports are provided in this report as Attachments 1 and 2. The ISS audit reports for the fourth quarter of 2022 are not yet available.

CLASS ACTION SETTLEMENTS – THIRD QUARTER 2022

BlackRock began the third quarter with 94 open claims. During the quarter, 16 claims were opened: two in the C Fund, 13 in the S Fund, and one in the I Fund. Fourteen claims were settled for a total of \$2,871,242. Four claims in the C Fund were settled for a total of \$2,115,439 and ten claims in the S Fund were settled for a total of \$755,803. Three claims in the S Fund were closed due to administrator action, bringing total claims closed during the quarter to 17. Additionally, residual payments from two previously closed claims in the C Fund and eight previously closed claims in the S Fund yielded \$583 and \$32,311, respectively. Total settlement proceeds for the quarter were \$2,904,136. Ninety-three claims remained open at the end of the quarter.

	<u>Open at Start of Quarter</u>	<u>Opened During Quarter</u>	<u>Closed During Quarter</u>	<u>Open Claims Outstanding</u>	<u>Total of Settled Claims in 2022</u>
F Fund	2	-	-	2	\$0
C Fund	24	2	4	22	\$5,375,544
S Fund	67	13	13	67	\$1,854,442
I Fund	1	1	-	2	\$0
Total	94	16	17	93	\$7,229,986

State Street began the third quarter with four open claims in the S Fund. Three claims were opened in the S Fund. Three claims in the S Fund were closed due to administrator action. Four claims remained open at end of the quarter.

	<u>Open at Start of Quarter</u>	<u>Opened During Quarter</u>	<u>Closed During Quarter</u>	<u>Open Claims Outstanding</u>	<u>Total of Settled Claims in 2022</u>
F Fund	-	-	-	-	\$0
C Fund	-	-	-	-	\$0
S Fund	4	3	3	4	\$0
I Fund	n/a	n/a	n/a	n/a	n/a
Total	4	3	3	4	\$0

ATTACHMENTS

Attachment 1: Audit Report on BlackRock's Proxy Voting in the Third Quarter of 2022

Attachment 2: Audit Report on State Street's Proxy Voting in the Third Quarter of 2022

ANNUAL REVIEW OF INVESTMENT POLICY

The G Fund investments produce long-term yields while incurring no market risk. I recommend reaffirmation of the current G Fund policy of investing solely in short-term maturities.

The F, C, S, and I Funds have tracked their respective indices and have incurred low trading costs. I recommend reaffirmation of the current F, C, S, and I Fund investment policies.

Therefore, I recommend the Board consider the following resolution:

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 – et seq.) provides the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f) (1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Common Stock Index Investment Fund, the Fixed Income Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.



October 18, 2022

Ms. Michelle Edkins
Managing Director
Corporate Governance & Responsible Investment
BlackRock
55 East 52nd St
New York, NY 10055

Dear Michelle,

Enclosed are the results of our review of US proxy votes by BlackRock for the 3rd quarter of 2022. Our review found that there were no exceptions to policy over this period.

Best regards,

 Recoverable Signature

X Andrew E. Linberg

Signed by: 161923fe-1fa1-4c5e-a954-b052a253edf1

Andrew E. Linberg
Head of Custom Research – Americas

INSTITUTIONAL SHAREHOLDER SERVICES INC.

702 King Farm Boulevard Suite 400
Rockville, MD 20850

[ISSGOVERNANCE.COM](https://www.issgov.com)



MEMORANDUM

The results of our review of BlackRock's 3rd quarter proxy voting for US meetings are as follows:

- Votes at 44 meetings were examined.
- Votes at 12 of the 44 meetings were for directors, auditors, and/or management say-on-pay (MSOP) only.
- At the 32 remaining meetings, there 60 were non-director/auditor/MSOP proposals.

The following table illustrates the votes involved by proposal type:

Proposal	Votes
Executive stock plan	13
Employee share purchase plan	2
Approve stock option grants	1
Advisory vote on golden parachute compensation	4
Frequency vote on MSOP	1
Reverse stock split	4
Increase authorized common stock	4
Increase authorized preferred stock	1
Issue shares below net asset value	1
Approve merger agreement	4
Issue shares in connection with merger	2
Change state of incorporation	1
Adjourn meeting	10
Approve shareholder rights plan	1
Increase size of board	1
Eliminate supermajority vote requirements	1
Provide right to call special meeting	1
Permit board to amend bylaws without shareholder consent	1
Change company name	2
Approve ratification of prior filing and amendment	1
Ratify tabulation of votes on reduction amendment	1
Other business	2
Shareholder proposal	1
Total:	60

INSTITUTIONAL SHAREHOLDER SERVICES INC.

702 King Farm Boulevard Suite 400
Rockville, MD 20850

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- There were 13 votes cast on executive stock plans:
 - a) 9 votes were cast in favor of the plans (69.2 percent);
 - b) 4 votes were cast against the plans (30.8 percent);
 - i.) 3 plans were opposed due to the presence of an evergreen provision;
 - ii.) 1 plan was opposed due to the presence of an evergreen provision and the ability to reprice options without prior shareholder approval.
- There were 2 votes cast on employee share purchase plans; the votes were cast in favor of the plans.
- There were 4 votes cast on increases in authorized common stock:
 - a) 3 votes were cast in favor of the increases (75 percent);
 - b) 1 vote was cast against the increases (25 percent)
- There were 6 votes cast on mergers, acquisitions and/or major corporate transactions including 2 issuances of shares pursuant to mergers/acquisitions; the votes were cast in favor of the transactions.
- There was 1 vote cast on a shareholder proposal to provide right to call special meeting; the vote was cast against the proposal.
- There were 19 votes cast on management advisory votes on executive compensation:
 - a) 16 votes were cast in favor of the advisory votes (84.2 percent);
 - b) 3 votes were cast against the advisory votes (15.8 percent)
- There were 4 votes cast on management advisory votes on golden parachute compensation:
 - a) 3 votes were cast in favor of the advisory votes (75 percent);
 - b) 1 vote was cast against the advisory votes (25 percent)

There were no exceptions to policy this period.



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November 7, 2022

Mr. Benjamin Colton
Global Co-Head of Asset Stewardship
State Street Global Advisors
State Street Financial Center
One Iron Street
Boston, MA 02210

Dear Benjamin,

The Custom Research team has completed its Q3 2022 audit of SSgA vote recommendations. We examined 25 US and International meetings, containing a total of 269 agenda items. In reviewing these items against the SSgA policy document, we identified zero (0) errors in the application of SSgA's policy (for an overall error rate of 0%).

Please feel free to contact us should you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Glen C. Schillerstrom" followed by two stylized initials "AA".

Glen C. Schillerstrom, CFA
Associate Vice President, Custom Research