



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

February 23, 2022

David A. Jones, Acting Chairperson of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 23, 2022, at 10:00 a.m., Eastern Standard Time. The meeting was held telephonically and open to the public. In attendance were Dana K. Bilyeu of Oregon, member; William S. Jasien of South Carolina, 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 Communications and Education; Tee Ramos, Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Technology Officer; Thomas Brandt, Chief Risk Officer; and Ernest Witherspoon, Executive Advisor to the Executive Director.

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. and welcomed everyone present to the meeting.

1. Approval of the Minutes of the January 24, 2022 Board Meeting.

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

MOTION: That the minutes of the Board meeting held on January 24, 2022 be approved.

2. State Street Global Advisors Report.

Mr. Deo gave opening remarks, provided a brief summary of the agenda for the meeting, and welcomed Rocky Granahan and her colleagues from State Street Global Advisors ("State Street").

Ms. Granahan is head of Institutional Relationship Management for Americas at State Street. Ms. Granahan introduced Cyrus Taraporevala, State Street's President and CEO, and her colleagues from the investment team and securities finance. She also provided a brief overview of the agenda for State Street's presentation.

a. Cyrus Taraporevala, President and CEO

Mr. Taraporevala was honored by State Street's selection as one of the asset managers for the TSP and remarked that it was inspiring to observe the collective teams of State Street and the TSP working closely together during last year's smooth transition of assets into the TSP C, S, and F Funds while managing the challenges of COVID-19. He stated that State Street is committed to achieving that same level of diligence in the day-to-day management of the plan. He also noted that State Street has its best people in technology operations and investment staying focused on providing TSP with the best service possible.

Mr. Taraporevala then provided an overview of State Street's history in the asset management industry. State Street's mission is to invest responsibly to enable economic prosperity and social progress. State Street manages over 4 trillion dollars in assets and has over 2,500 employees across 30 offices globally. He explained that State Street Global Advisors is the asset management side of State Street Corporation, one of the largest global custodian banks with over 43 trillion dollars of assets under custody.

Mr. Taraporevala concluded by announcing his plan to retire in 2022 after his successor is on board and a smooth transition has occurred.

b. Lori Heinel, Chief Investment Officer

Ms. Heinel provided an overview of State Street's global market outlook, including a general overview of the U.S. and global economies and the various factors that may impact 2022's economic recovery. See "FRTIB\_SSGA Board Meeting" (attached).

c. Brendan Curran, Head of U.S. Investment Strategy for Defined Contributions

Mr. Curran provided his perspective on plan design trends based on State Street's broader defined contribution business. He discussed target date funds and how they work well for many investors who are too busy to check their allocations and rebalance as their time horizon shortens. Over time, these funds have delivered higher median returns with lower levels of volatility when compared to participants who construct their defined contribution portfolios with standalone options. Mr. Curran also discussed next generation challenges such as participants living and working longer, the employer shift from defined benefit plans to defined contribution plans, and sponsors looking for in-plan retirement income solutions to maintain assets in the plan to keep costs down. He also mentioned that many participants are looking to their employer for assistance in the decumulation phase.

d. Axel Hester, Director of Securities Lending

Mr. Hester provided an overview of State Street's experience and commitment to securities lending as a core product offering. He stated that State Street manages 5.4 trillion dollars in lendable assets and cash collateral advance through State Street's cash management business. State Street's lending program focuses on balancing risk and returns while adapting to the characteristics of the FRTIB's lending program and its participants. He noted that, overall, State Street believes that the launch of the TSP lending program with State Street was successful, and 2022 is starting off well.

e. Marc Dicosimo, Senior Portfolio Manager

Mr. Dicosimo provided an overview of the F Fund, a passively-managed portfolio whose objective is to track the Bloomberg U.S. aggregate index. He reported that the fund is tracking appropriately, and since State Street began management in June of 2021, the Fund has had a positive tracking error of 1 basis point.

f. Karl Schneider, Senior Portfolio Manager

Mr. Schneider discussed the performance for the S Fund and the C Fund in 2021. He stated that the C Fund matched its benchmark in each period, while the S Fund was slightly ahead of its benchmark in each period. He noted that the S Fund has outperformed its benchmark by close to seven basis points with approximately six basis points coming from the securities lending program.

g. Closing Remarks

Ms. Granahan gave a few closing remarks and opened the floor for questions. In response to a question from Member Jasien about the geopolitical activities around the globe and their effects on the market, Ms. Heinel explained that there are some concerns about liquidity, particularly in local markets and especially in the bond markets, where spreads have widened quite dramatically, and trading activity has grown to a halt. She said that State Street is carefully watching developments in Ukraine.

Member Jasien, echoed by Member Bilyeu and Acting Chairman Jones, requested that State Street continue to provide information relating to decumulation strategies as more individuals reach retirement with only a defined contribution plan. Mr. Curran agreed that the decrease in defined benefit plans has presented challenges in this area and he is happy to share more information going forward.

3. Monthly Reports.

a. Participant Activity Report

Mr. Ramos reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics January 2022" (attached). He reported that the FERS and

active-duty uniformed services participation rates increased in January, setting all-time highs of 94.9 percent and 81.3 percent, respectively. He also reported that an additional 3,400 separated participants began receiving monthly payments in February, adding to the 241,642 participants who are already receiving monthly payments. Mr. Ramos stated that, as he reported last month, national labor supply and COVID-related absences have negatively affected the Agency's ability to maintain sufficient staffing at the contact centers. The Agency's hiring and training pipeline in February should better position the Agency to be back on track in March. In response to a question from Member Jasien regarding staffing, Mr. Ramos shared that the Agency's vendors have had several campaigns to recruit previously terminated employees and through contract negotiations have raised the prevailing rates to be more competitive with local markets. He admitted that the situation is still challenging, but they are doing a better job. He explained that sizable classes that were hired in January and early February are getting through the training program and will be ready to begin answering calls in March. He acknowledged that the high turnover rate continues to be a problem. Member Jasien asked for the attrition rate, and Mr. Ramos responded around 94 percent.

#### b. Legislative Report

Ms. Weaver began by noting that the House of Representatives and the Senate are out this week. She mentioned that Congress passed a three-week extension of the Continuing Resolution, which expires March 11th, and they are working to make sure the remainder of the fiscal year is funded.

#### c. Investment Performance

Mr. McCaffrey reviewed the monthly investment performance report. See "January 2022 Performance Review – G, F, C, S, I, and L Funds" (attached).

For the month of January, BlackRock's performance for the F Fund exceeded the Fixed Income Index by nine basis points, primarily due to a difference in the timing of pricing by BlackRock and by the index provider on December 31, 2021. Its performance for the C Fund was in line with the Large Cap Index. For the S Fund, BlackRock outperformed the Small Mid Cap Index by three basis points, primarily resulting from securities lending. Its performance for the I Fund was ahead of the International Index by 88 basis points, largely due to a fair value pricing event on the last trading day of January.

State Street's performance for the F and C Funds was in line with the Funds' Fixed Income and Large Cap indices respectively for the month. Its performance for the S Fund exceeded the return of the Small Mid Cap Index by five basis points, primarily due to securities sampling.

The Federal Reserve left its target short-term interest rate range unchanged, noting that economic growth continues to depend on the course of the pandemic. However, it also acknowledged that inflationary pressures may soon require

that rate to rise. Markets were turbulent as investors prepared for the removal of monetary stimulus. Higher longer-term interest rates contributed to a loss for the F Fund. The C, S, and I Funds also posted losses, with the latter's decline attributable in part to a stronger U.S. dollar. All the L Funds experienced losses for January.

Mr. McCaffrey noted that there is no separate year-to-date performance reporting and commentary for this meeting because those returns would match January's returns.

Mr. McCaffrey provided the current month's performance through Tuesday, February 22, 2022. The C Fund is down 4.56 percent. The S Fund's loss is 3.59 percent. The I Fund has lost 1.60 percent. The F Fund has fallen 1.61 percent. The G Fund is ahead by 0.11 percent.

Net interfund transfers for the Funds picked up significantly for January because of what were probably flight-to-safety trades that led some participants to exit the equity Funds and buy the G Fund. About 2.46 percent of participants in the TSP chose to do an interfund transfer. Mr. McCaffrey noted that looking at it another way, about 97.54 percent of participants chose not to do an exchange, in keeping with the theme that most participants do not execute an interfund transfer in a given month.

#### d. Investment Policy Approval Frequency.

Mr. McCaffrey gave a presentation to explore the appropriate frequency for proposing resolutions to the Board for review and affirmation of the TSP Funds' investment policies. See "Investment Policy Approval Frequency" (attached). He explained that the Federal Employees' Retirement System Act (FERSA) requires the Board to establish investment policies, but it does not specify the frequency of their review. The current practice is that the Executive Director proposes a resolution to the Board for the approval of the TSP's investment policies for the G, F, C, S, and I Funds on a quarterly basis.

The Office of Investments recently commissioned a study by RVK, one of the TSP's investment consultants, regarding best practices with respect to the frequency of Board review and approval of investment policies. Mr. McCaffrey gave a brief overview of RVK's study and its findings. Based on a review of the findings in RVK's study and consideration of the nature of TSP's investment policies, Mr. McCaffrey noted that annual reviews are most consistent with the long-term nature of the TSP's investment policy.

Mr. McCaffrey presented a proposal that the resolution on investment policy be moved to an annual basis with exceptions for special circumstances that may arise. Additionally, the most recently approved resolution during the Board meeting of January 2022 should serve for all of the calendar year 2022, so the next resolution would be submitted in January 2023.

In response to a question from Member Jasien regarding how the quarterly approval practice began, Mr. Deo and Mr. McCaffrey both stated that their understanding is that it was set up as quarterly since the plan's inception.

Acting Chairperson Jones entertained a motion for approval of the 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 C, F, S, I and G Funds are created by statute and are long-term investments; and

WHEREAS the Board currently reviews the TSP funds' investment policies on a quarterly basis; and

WHEREAS the Board's due diligence suggests that fiduciaries of similar plans review investment policies on an annual basis;

NOW THEREFORE BE IT RESOLVED that the Board will review the TSP's investment policies going forward on an annual basis.

The following motion was made, seconded, and adopted without objection:

MOTION: That the Board will review the TSP's investment policies going forward on an annual basis.

4. Quarterly Metrics Report.

Dennis McNulty from the Office of Planning and Risk provided the first quarter key performance indicator results. See "FY22Q1 Board Report" (attached). Mr. McNulty briefed from Strategic Goal A: Improve participant retirement outcome and Goal D: Transition successfully to a managed services operating model.

Regarding Strategic Goal A, Mr. McNulty reported that the Agency fell below the desired target for the Blended Retirement System (BRS) full matching contribution rate. Mr. McNulty reported that the missed target was driven mainly by auto-enrollees who were enrolled prior to the increase of the default contribution rate. He explained that the first quarter was the first time deferral rates for both BRS auto-enrollees and BRS opt-ins were combined into a single metric. Mr. McNulty stated that based on a review of historical data that shows steady increases over the past year in the full matching rate for the BRS population, he expects this metric to continue to increase going forward due to the impact of the five percent deferral rate.

Regarding Strategic Goal D, Mr. McNulty reported that the Agency missed its target for the phone call response rate due to the impact of COVID variants as well as other labor market issues on staffing. He stated that contact center providers are aggressively recruiting to increase staffing.

5. Converge Update.

Tanner Nohe, Converge Program Manager, provided a brief overview of the Converge functional areas and then provided updates on data readiness, payroll and security readiness, service readiness, and participant communications. See “Converge Update for February 2022” (attached).

Regarding data readiness, Mr. Nohe reported that the testing of the third round of data was completed in early February as planned, and all the essential data for day-to-day operations was successfully converted on the Accenture Federal Services (AFS) side and validated. They continue to work on the integrations between the new record-keeping system and the data lake, which will eventually support the processes for historical data. At the end of February, they are preparing the fourth and final round of conversion test data.

Mr. Nohe reported that they continue to make great progress in preparing the payroll offices for conversion. All of the draft interconnection security agreements (ISAs) have been reviewed, and over half of the ISAs have been signed and fully executed.

The remaining ISAs are on track, and the target is to have them all finalized by the end of February. The secure connection testing for the payroll agencies that have a direct link to submit their payroll files is 95 percent completed, with the remainder expected by the end of February. Mr. Nohe noted that strategically, a lot of things are scheduled to be completed by the end of February to align with the plan to begin performance testing at the beginning of March.

Mr. Nohe stated that they are finalizing the Memorandum of Understanding and currently credentialing those payroll agencies that will use the new payroll portal to submit their payroll files. Ninety percent of those users have been identified and are being credentialed. They are in the process of training these users on the new system, which will continue through mid-March.

Regarding security, Mr. Nohe reported that they are still on track to issue the full Authorization to Operate at the end of February.

Mr. Nohe reported that the functional testing around service readiness that was previously behind schedule has now been completed on schedule. Hands-on User Acceptance Testing (UAT) wrapped up in January. Multiple areas of functionality across 75 different topics were tested, and the feedback from that UAT has been shared with AFS. Performance testing will begin in March.

Mr. Nohe highlighted that participant communications have officially kicked off with the Executive Director's letter that was sent out with annual statements in early February, which was the start of the first campaign, "Get Excited." More communications will continue to be sent out over the next few weeks. Additional campaigns will follow: the "Get Ready" campaign in March, and the "It's Here" campaign upon go-live. Mr. Nohe noted that they are also preparing contingency communications as a precaution.

Finally, in reviewing Converge milestones, Mr. Nohe highlighted that the recordkeeping conversion round three milestone has been met, and he expects to meet the next milestone by granting the Authorization to Operate by February 28. He concluded that the Agency is on track to hit the target go-live date later this year.

6. Agency Recognition.

Mr. Courtney announced that the Agency will be recognized with two Eddy awards at an upcoming Pensions and Investments conference. See "Agency Recognition" (attached).

One award is for the implementation of "Spillover" and the other award is for the "To Retirement and Beyond" training. Mr. Courtney explained that "Spillover" is the TSP's "easy button" solution to making catch-up contributions for those turning 50 and over. The Agency's social scientist, Elizabeth Perry, identified the need for "Spillover" and helped lead the project team responsible for its implementation.

"To Retirement and Beyond" is a class the training team teaches to participants planning to retire within 10 years and addresses many of the factors to be considered in that transition. Stuart Kaplan and his colleagues presented this course 25 times last year to a total of more than 16,000 participants.

7. Adjourn.

On a vote taken by the Acting Chairperson, the members closed the meeting at 11:27 a.m. for executive session.

At 12:00 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 Acting Chairperson Jones adjourned the meeting at 12:00 p.m.

MOTION: That this meeting be adjourned.



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Dharmesh Vashee  
General Counsel and Secretary

Attachments

1. FRTIB SSGA Board Meeting
2. Thrift Savings Fund Statistics January 2022
3. January 2022 Performance Review – G, F, C, S, I, and L Funds
4. IPS Approval Frequency
5. FY22Q1 Board Metrics Report
6. Converge Update for February 2022
7. Agency Recognition