



Employee Benefits Security Administration

Performance Audit of State Street Global Advisors Trust Company's Thrift Savings Plan Investment Management Operations

September 15, 2023

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
EXECUTIVE SUMMARY	i
I. BACKGROUND OF THE TSP INVESTMENT MANAGEMENT OPERATIONS	
A. The Thrift Savings Plan	I.1
B. TSP Investment Management Operations	I.2
C. Securities Lending	I.7
D. Trading Costs	I.10
E. Exemptions	I.11
F. Tracking Error	I.12
G. Proxy Voting	I.13
H. Audits and Regulatory Reviews	I.14
I. TSP Investment Statistics	I.14
II. OBJECTIVE, SCOPE AND METHODOLOGY	
A. Objective	II.1
B. Scope and Methodology	II.1
III. FINDINGS AND RECOMMENDATIONS	
A. Introduction	III.1
<u>Appendices</u>	
A. Agency Response	A.1
B. Key Documentation and Reports Reviewed	B.1

EXECUTIVE SUMMARY

Barry Smith

Executive Vice President and Chief Operating Officer, Global Client Coverage Group

State Street Global Advisors Trust Company

Boston, MA

Members of the Federal Retirement Thrift Investment Board

Washington, DC

Michael Auerbach

Chief Accountant

U.S. Department of Labor, Employee Benefits Security Administration

Washington, D.C.

As a part of the U.S. Department of Labor (DOL) Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of State Street Global Advisors Trust Company's (SSGA or investment manager) investment management operations related to the Thrift Savings Plan's (TSP) Fixed Income Index Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Investment Fund (S Fund), and International Stock Index Investment Fund (I Fund). Our fieldwork was performed remotely from January 17, 2023, through July 28, 2023. Our scope period for testing was January 1, 2022, through December 31, 2022.

We conducted this audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the American Institute of Certified Public Accountants' (AICPA) *Standards for Consulting Services*. *Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate audit evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Criteria used for this engagement are defined in EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes United States Code (USC) Title 5, Chapter 84, and Code of Federal Regulations (CFR) Title 29, Chapter XXV.

The objectives of our audit over the TSP investment management operations were to:

- Determine whether the investment manager implemented certain procedures to: (1) promptly and accurately deposit TSP investments in the authorized investment funds; (2) accurately summarize and report TSP investment transactions, including investment management fees relating to TSP investment funds, to the Federal Retirement Thrift Investment Board's (Board) Staff; (3) accurately report the daily yield on each investment fund, less authorized management fees, to the Board's Staff (Agency); (4) invest index investment funds in a portfolio that matches the indices selected by the Board; (5) vote proxies of the C, S, and I Fund investments in accordance with the investment manager's stated guidelines; and (6) accurately and timely process TSP investment transactions.
- Test compliance of SSGA's TSP investment management operations with 5 USC 8438(b), 5 USC 8438(c), and 5 USC 8477(c)(2) (hereinafter referred to as FERSA), 29 CFR 2509.08-2 (hereinafter referred to as Agency Regulations), Individual Prohibited Transaction Exemptions (IPTE) 2013-05, and Prohibited Transaction Class Exemptions (PTCE) 2006-16 and 2002-12 (hereinafter referred to as Prohibited Transaction Exemptions).

We noted no prior recommendations, and the current engagement produced no new recommendations.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2022 through December 31, 2022, SSGA implemented certain procedures to (1) promptly and accurately deposit TSP investments in the authorized investment funds; (2) accurately summarize and report TSP investment transactions, including investment management fees relating to TSP investment funds, to the Agency; (3) accurately report the daily yield on each investment fund, less authorized management fees, to the Agency; (4) invest index investment funds in a portfolio that matches the indices selected by the Board; (5) vote proxies of the C, S, and I Fund investments in accordance with its investment manager stated guidelines; and (6) accurately and timely process TSP investment transactions. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA, Agency Regulations, or Prohibited Transaction Exemptions.

The Agency's formal response to the draft report is included as an appendix within this report (Appendix A). SSGA elected not to provide a formal response because no findings or recommendations are presented in the report.

This performance audit did not constitute an audit of the TSP's or SSGA's financial statements or an attestation engagement as defined by *Government Auditing Standards* and the AICPA standards for attestation engagements. KPMG was not engaged to and did not render an opinion on SSGA's internal controls over financial reporting or over financial management systems. KPMG cautions that projecting the results of this audit to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

While we understand that this report may be used to make the results of our performance audit available to the public in accordance with *Government Auditing Standards*, this report is intended for the information and use of the U.S. Department of Labor Employee Benefit Security Administration, Members of the Federal Retirement Thrift Investment Board, SSGA management, and Agency management. The report is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

September 15, 2023

I. BACKGROUND OF THE TSP AND SSGA'S INVESTMENT MANAGEMENT OPERATIONS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions on April 1, 1987, and as of December 31, 2022, had approximately \$765.2 billion in assets and approximately 6.75 million participants.¹

The FERSA also established the Federal Retirement Thrift Investment Board (Board) and the position of Executive Director. The Executive Director and the members of the Board are TSP fiduciaries. The Executive Director manages the TSP for its participants and beneficiaries. The Board's Staff (Agency) is responsible for administering TSP operations.

The TSP is required to offer five investment options: the Government Securities Investment Fund (G Fund), the Fixed Income Index Investment Fund (F Fund), the Common Stock Index Investment Fund (C Fund), the Small Capitalization Stock Index Investment Fund (S Fund), and the International Stock Index Investment Fund (I Fund). FERSA requires the following:²

- G Fund contributions are to be invested in nonmarketable U.S. Treasury securities specially issued to the TSP. These securities earn interest at a rate that is equal, by law, to the average market yield on outstanding marketable U.S. Treasury securities with four or more years to maturity;
- F Fund contributions are to be invested in insurance contracts, certificates of deposit, or other fixed income securities selected by a qualified professional asset manager;

¹ Source: Minutes of the January 24, 2023, Federal Retirement Thrift Investment Board meeting, posted on FRTIB's website.

² Sources: G, F, C, S, and I Fund requirements from FERSA, United States Code Chapter 5, Sections 8438(b)(1)(A)-(E), 8438(b)(2)-(4).

- C Fund contributions are to be invested in a portfolio designed to replicate the performance of a commonly recognized index. The index should be a reasonably complete representation of the U.S. equity markets;
- S Fund contributions are to be invested in a portfolio designed to replicate the performance of a commonly recognized index. The index should be a reasonably complete representation of the U.S. equity markets excluding the common stocks included in the C Fund; and
- I Fund contributions are to be invested in a portfolio designed to replicate the performance of a commonly recognized index. The index should be a reasonably complete representation of the international equity markets excluding the U.S. equity markets.

Additionally, the TSP offers the Lifecycle Funds (L Funds), which are portfolio funds comprised of the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to meet investment objectives based on ten different time horizons.³

B. TSP Investment Management Operations⁴

During the scope period, the Agency contracted with State Street Global Advisors Trust Company (SSGA), a Massachusetts non-depository trust company and subsidiary of State Street Corporation (State Street), and the BlackRock Institutional Trust Company, N.A. (BTC) to each manage a portion of the assets for the F Fund, C Fund, S Fund, and I Fund. SSGA managed assets for the F, C, S, and I Fund for the entire scope period while they did not begin managing assets for the I Fund until December 2022. As an investment manager, SSGA is responsible for ensuring that:

- Investments and investment management operations comply with FERSA and provisions of the contract between the Agency and SSGA;
- Investment management and custodian operations safeguard F, C, S, and I Fund investments;
- F, C, S and I Funds investment transactions are processed accurately and timely;

³ Source: "Lifecycle (L) Funds" page posted on TSP's website.

⁴ Sources: [REDACTED]

- Proxies related to the C, S, and I Funds' investments are voted in accordance with SSGA's stated guidelines;
- Cross-trades, securities lending, and transactions involving minority passive shareholders (MPS) are executed in accordance with the terms of the applicable DOL exemptions; and
- The Agency receives timely transaction reports to facilitate reconciliations to the TSP general ledger.

The portions of the F, C, S and I Fund investments managed by BTC were not within the scope of this performance audit. Further, because the G Fund investments are managed by the Agency, not SSGA, they were not within the scope of this performance audit.

1. The F Fund Overview⁵

F Fund assets are invested in SSGA's TSP F Fund Fixed Income Index Investment Fund Account (F Fund Account), a daily-valued, separate account that holds only TSP assets and is designed to track the performance of the Bloomberg Barclays U.S. Aggregate Bond Index. The Bloomberg Barclays U.S. Aggregate Bond Index was designed to provide a representative measure of the U.S. fixed income markets; it is a broad index representing U.S. Government, asset-backed, corporate, and foreign government (issued in the U.S.) sectors of the U.S. bond market.

Because the Bloomberg Barclays U.S. Aggregate Bond Index is comprised of numerous securities, some of which are infrequently traded, it is not practical for the F Fund Account to hold every security. Consequently, SSGA uses mathematical models to select a representative sample of the types of U.S. Government, foreign government, corporate, taxable municipal, mortgage-backed, commercial mortgage-backed, and asset-backed securities included in the Bloomberg Barclays U.S. Aggregate Index. As illustrated in *Exhibit I-1*, the portfolio profile of SSGA's F Fund Account (in dollar terms) closely represented the Bloomberg Barclays U.S. Aggregate Index as of December 31, 2022.

⁵ Sources: "F Fund" page posted on TSP's website; SSGA *TSP F Fund Bond Portfolio Characteristics* as of December 31, 2022; TSP Fund Series Audited Financial Statements as of December 31, 2022.

Sector Breakdown	F Fund Account	Barclays U.S. Aggregate Index
U.S. Government Securities	40.82%	40.87%
Agency Securities	1.12%	1.18%
Corporate Credit	24.30%	24.19%
Foreign Government Securities	3.95%	3.90%
Mortgage-Backed Securities and Hybrid Adjustable-Rate Mortgages	27.53%	27.58%
Commercial Mortgage-Backed Securities	1.82%	1.83%
Asset-Backed Securities	0.41%	0.45%
Cash and Other	0.06%	0.00%

Although the investment policy related to the F Fund Account allows the use of futures to improve tracking or provide liquidity, futures were not used in the account during the period January 1, 2022, through December 31, 2022.

2. C Fund Overview⁶

C Fund assets are invested in SSGA’s TSP C Fund Common Stock Index Investment Fund Account (C Fund Account), a daily-valued, separate account that only holds TSP assets and is designed to track the performance of the S&P 500 Index. The S&P 500 Index was designed to provide a representative measure of U.S. stock market performance. It consists of approximately 500 common stocks, representing more than 120 separate industries, which trade primarily on the New York Stock Exchange.

A portion of the C Fund Account assets is reserved to meet the needs of daily participant activity. This liquidity reserve is invested in S&P 500 Index futures contracts, a type of derivative, to equitize cash balances, reduce tracking error, and provide liquidity. For the C Fund Account,

⁶ Sources: “C Fund” page posted on TSP’s website; TSP Fund Series Audited Financial Statements as of December 31, 2022.

SSGA invests only in S&P 500 Index futures that are freely traded on major futures exchanges in order to minimize the counter-party credit risk with these transactions.

3. S Fund Overview⁷

S Fund assets are invested in SSGA's TSP S Fund Small Capitalization Stock Index Investment Fund Account (S Fund Account), a daily-valued separate account that only holds TSP assets and is designed to track the performance of the Dow Jones U.S. Completion Total Stock Market Index. The Dow Jones U.S. Completion Total Stock Market Index is an index of all actively traded U.S. common stocks that are not included in the S&P 500 Index. As of December 31, 2022, the Dow Jones U.S. Completion Total Stock Market Index was comprised of over 3,200 common stocks included in the U.S. stock market, excluding the 500 issues that are represented in the S&P 500 Index. The S Fund Account holds a majority of stocks in the index; however, it is not practicable to hold all such stocks because some stocks are illiquid and infrequently traded, or priced at less than \$1.00 per share and thus inefficient to invest in. Therefore, the S Fund Account is managed as a model-driven fund with the objective of replicating the returns of the Dow Jones U.S. Completion Total Stock Market Index. The S Fund Account also invests in related index futures to improve tracking and liquidity.

4. I Fund Overview⁸

I Fund assets are invested in SSGA's TSP I Fund International Stock Index Investment Fund Account (I Fund Account), a daily-valued separate account that only holds TSP assets and is designed to track the MSCI EAFE (Europe, Australasia, Far East) Index (MSCI EAFE Index). The MSCI EAFE Index is an index of the equity markets of the developed world outside of the United States and Canada. As of December 31, 2022, the MSCI EAFE Index consisted of the stocks of over 800 companies in 21 countries. The I Fund Account also invests in selected index futures that have been approved by U.S. regulators for investment by U.S. persons to equitize cash balances, reduce tracking error and provide liquidity (i.e., SPI 200 Index, Euro Stoxx 50 Index, NIKKEI 225 Index, and FTSE 100 Index futures).

The I Fund Account holds securities from all 21 countries included in the EAFE Index. The

⁷ Sources: "S Fund" page posted on TSP's website; Dow Jones publication *Dow Jones U.S. Completion Total Stock Market Index* as of December 31, 2022; TSP Fund Series Audited Financial Statements as of December 31, 2022.

⁸ Sources: "I Fund" page posted on TSP's website; MSCI publication *MSCI EAFE Indexes (USD)* and [REDACTED]; TSP Fund Series Audited Financial Statements as of December 31, 2022.

primary source of earnings for the I Fund Account is the net changes in the prices of securities in this account, although at times, net foreign currency changes relative to the U.S. dollar can be a greater component of earnings than stock price gains or losses. Dividend income and securities lending income are also important sources of earnings. The MSCI EAFE Index is diversified among countries and industries, so that the effect of poor performance in one stock market or group of companies may be reduced.

5. SSGA Investment Management Process Overview⁹

The Agency submits orders daily by 2:00pm (eastern time) and has the option to submit its orders by fax, email, or [REDACTED]. The vast majority of the Agency's orders are submitted electronically, according to both the Agency and SSGA. Electronic orders are processed automatically through [REDACTED] via [REDACTED], SSGA's proprietary application used as a point of entry for cash flow instructions from clients or their authorized agents and used to notify the SSGA [REDACTED].

Upon receipt of the order, [REDACTED] will check that key attributes are valid, generate an automated electronic trade confirmation and submit it back to the Agency. Since this is an automated process, staff review electronic investment orders only if there are exceptions or rejections of the data submitted for Agency review. From [REDACTED] all transactions flow to appropriate destination systems.

The SSGA investment system identifies cross-trading opportunities among eligible funds and accounts. Cross-trades for the C Fund Account, S Fund Account, and I Fund Account occur when another fund or account managed by SSGA or one of its affiliates is a buyer or a seller of an equity security or securities for which one of these three TSP Fund Accounts is a seller or a buyer, respectively (See Section D). The SSGA investment system is designed to only authorize cross-trades qualified under class prohibited transaction exemption (PTE) 2002-12 (See Section E). Traders execute remaining trades with external brokers. The SSGA [REDACTED] confirms the trades with executing brokers and uses the investment system to transmit the information electronically to record the accounting and custodial information.

TSP trades settle one business day after the trade date. The Agency's accounting staff authorizes the wire transfer of the F, C, S, and I Fund net contributions to SSGA on the settlement date for

⁹ Source: [REDACTED]

purchases. (In the case of a redemption, the money is wire transferred from SSGA to the TSP's account with the U.S. Department of the Treasury). The SSGA [REDACTED] sends the Agency transaction reports confirming the trades. These reports include the Agency's trading costs, if any (See Section D).

The SSGA [REDACTED] also sends monthly transaction reports for the TSP investments in the various TSP Fund Accounts to the Agency's Office of Investments. These reports list the details of all TSP transactions during the month as well as the market and book values of the funds at the end of the month.

6. Management Fees¹⁰

On a monthly basis, the SSGA Financial Reporting group reports its management fees to the Agency. Management fees are based on rates established in the investment management contracts between the Agency and SSGA.

C. Securities Lending¹¹

Brokers occasionally borrow specified securities to complete a trade that would otherwise fail, or to short sell (i.e., sell with the expectation of buying the securities to settle the trade at a later time at a lower price). SSGA is responsible for negotiating securities lending transactions for its funds and accounts within its established guidelines, which include any requirements set forth in PTE 2006-16 and PTE 2013-05. Income from securities lending provides additional returns to the TSP's funds.

SSGA has implemented procedures to limit the risk of default on securities loaned. Potential borrowers undergo a credit screening process and, if approved, must provide collateral equal to at least 102 percent of the market value of the U.S. securities loaned and 105 percent of the market value of international securities loaned. The collateral is marked-to-market daily so that it is maintained at these levels. U.S. collateral may be in the form of cash, U.S. government obligations, or such other collateral as the Agency and SSGA agree upon from time to time. Non-U.S. collateral is not accepted. Cash collateral is segregated from other assets of the lending TSP

¹⁰ Sources: [REDACTED]

¹¹ Sources: [REDACTED]

Fund Accounts by identification on the books and records of the lender and is invested in cash collateral funds.

State Street invests securities lending collateral in various investments in accordance with the Collateral Reinvestment Account (CRA) investment guidelines for the collateral investment vehicle. To limit the risk involved with these transactions, State Street subjects potential counterparties to the same credit screening process to which State Street subjects its security lending borrowers. State Street has set limits on the amount of securities lending and collateral investments that it has with any one borrower. Exhibit I-2 shows the percent of the value of securities in each of the TSP Fund Accounts that were on loan to approved brokers as of December 31, 2022 and 2021.¹²

Exhibit I-2

TSP Account	As of December 31, 2022	As of December 31, 2021
C Fund Account	0.44%	0.41%
S Fund Account	5.83%	7.54%
F Fund Account	1.01%	2.58%
I Fund Account	0.49%	N/A

Lending opportunities are allocated to a particular SSGA managed fund or account via an algorithm in SSGA’s system that seeks to allocate loan opportunities among funds and accounts in a manner that, over time, seeks to approximate the outcome of a pro-rata allocation. The algorithm takes into account factors such as whether a lending fund or account has been passed over for previous loan opportunities; availability of the security sought by the borrower; applicable legal, tax and credit restrictions for each lending fund or account; any restrictions imposed by the borrower; and constraints imposed by the lending fund/account’s custodian or relevant sub-custodian(s) or the relevant securities market.

SSGA bears all operational costs directly related to securities lending. The chart below (Exhibit I-3) presents the effect (i.e., percent increase) of securities lending, and the income generated therefrom, on fund returns for the TSP Fund Accounts for the 12-month period ended December

¹² Sources: TSP Fund Series audited financial statements as of December 31, 2022, and December 31, 2021.

31, 2022, and the proportion of securities lending income to net investment income for the fiscal years ended December 31, 2022 and 2021, respectively.¹³

Exhibit I-3

TSP Account	Securities Lending Income as of December 31, 2022	Securities Lending Income to Net Investment Income	
		2022	2021
C Fund Account	\$1.76 million	0.38%	0.09%
S Fund Account	\$39.49 million	14.67%	06.76%
F Fund Account	\$6.35 million	4.77%	2.60%
I Fund Account	\$0.004 million	0.04%	N/A

As compensation for its services and those of State Street Bank, SSGA is entitled to a share of the intrinsic income generated by the TSP Fund Accounts' securities lending. Exhibit I-4 presents the percentage of intrinsic income payable on a monthly basis by each TSP Fund account.¹³

Exhibit I-4

TSP Account	Share of Intrinsic Income Payable
C Fund Account	30%
S Fund Account	0% plus .09% per annum of the collateral balance
F Fund Account	28%
I Fund Account	27%

¹³ Sources: TSP Fund Series audited financial statements as of December 31, 2022, and December 31, 2021.

D. Trading Costs¹⁴

Trading costs associated with client transactions in the C Fund Account, S Fund Account, and I Fund Account generally consist of negotiated commissions on common stock purchases and sales or the buying and selling of futures contracts. Trading costs in the F Fund Account consist of the spreads between a dealer's bid price and ask price on debt securities purchased and sold. Trading costs associated with client transactions are borne by the TSP as the sole participant in the respective accounts. Trading costs do not contribute significantly to the tracking error of the TSP's accounts.

To minimize trading costs, SSGA cross-trades, in the case of equities only, among eligible SSGA managed funds and accounts before trading in the external market. Transaction costs are also decreased to the extent that cash from client contributions are available for cash redemptions on a fund opening day (i.e., a "unit exchange").

1. Cross-Trades¹⁵

A cross-trade is the purchase or sale of securities between two accounts or funds managed by, but not necessarily under the custody of, SSGA or one of its affiliates. SSGA uses cross-trades among eligible funds and accounts, where appropriate, to reduce transaction costs and facilitate achieving client or fund investment objectives. Clients contributing cash to or withdrawing cash from an account or fund may benefit through transaction cost savings to the extent that securities may be purchased or sold through a cross-trade with another SSGA-managed account or fund rather than purchased or sold on the market through a broker. With a cross-trade, the client will not incur transaction fees on the separate purchase and sale transactions. By internally matching SSGA's sell orders for a particular day with its buy orders for the same day, both funds and/or accounts save by avoiding transaction costs. SSGA is obligated by its fiduciary responsibilities to ensure that no cross-trading activity has created an advantage to any client or fund relative to any other client or fund.

For SSGA, as a manager of index and model-driven funds, cross-trading is a method of executing a securities transaction that the portfolio manager has already included on a trade list and that would occur even if cross-trades were not permitted. After a separate decision has been made that

¹⁴ Source: [REDACTED]

¹⁵ Sources: [REDACTED] DOL's Office of Exemptions

the fund or account will buy or sell the security, SSGA will trade that security through a cross-trade if crossing opportunities are available. Therefore, cross-trading is a cost-efficient mechanism for implementing prior decisions to buy or sell.

DOL's position is that, without an applicable exemption, cross-trading transactions result in violations of one or more provisions of Part 4 of Title I of the Employee Retirement Income Security Act of 1974 (ERISA). FERSA contains similar restrictions in section 8477(c)(2)(B). The basis for this position is that by representing the buyer on one side and the seller on the other in a cross-trade, a fiduciary act on behalf of parties that have adverse interests to each other.¹⁶ DOL has issued PTE 2002-12 allowing certain passive investment managers of plans to cross-trade securities. SSGA may use PTE 2002-12 for cross-trades of equity securities, and used it for the TSP C, S, and I Fund Accounts during the scope period. While PTE 2002-12 allows for the cross-trading of fixed income securities, SSGA did not engage in cross-trades of fixed income securities in the F Fund Account during our scope period.

E. Exemptions¹⁷

DOL grants certain class and individual exemptions for transactions prohibited by ERISA and FERSA. SSGA currently utilizes the following exemptions from DOL related to the TSP investment activities:

- PTE 2002-12 permits the cross-trading of index and model-driven accounts and funds and certain client restructure accounts.
- PTE 2006-16 permits entities to lend securities to various banks and broker-dealers under certain conditions. These banks and broker-dealers are typically "parties in interest" under ERISA. This exemption also permits the entity to receive compensation with respect to securities lending services.
- IPTE 2013-05 permits SSGA, as an affiliate of an equity owner of [REDACTED], to use the EquiLend platform to sell or license products/services of [REDACTED] to plans and includes a provision for the use of off-platform security lending data. The [REDACTED] platform is a common electronic platform provided by [REDACTED] for negotiating securities

¹⁶ Federal Register, Volume 63, Number 64, *Notices – Department of Labor – Pension and Welfare Benefits Administration, Cross-Trades of Securities by Investment Managers*, 63 FR 13696.

¹⁷ Sources: DOL's Office of Exemptions; IPTE 2013-05, and PTE 2002-12 and 2006-16.

lending transactions, identifying borrowing opportunities with pre-approved borrowers, negotiating specific loans, maintaining appropriate records, marking to market all outstanding loans, ensuring collateral maintenance, and monitoring delivery and control of collateral.

F. Tracking Error¹⁸

As previously described, the F Fund Account, C Fund Account, S Fund Account, and I Fund Account were designed to replicate the performance of the Bloomberg Barclays U.S. Aggregate Bond Index, S&P 500 Index, Dow Jones U.S. Completion Total Stock Market Index, and the MSCI EAFE Index, respectively. The difference between the performance of each of the TSP’s Fund Accounts and the performance of the index it is designed to replicate is known as “tracking error.” SSGA’s established procedures over tracking error enable it to monitor the TSP portfolios against the investment indices selected by the Board. On a monthly basis, SSGA reports monthly tracking error, as well as cumulative tracking error over periods of three, six and twelve months, to the Agency for each TSP Account. Exhibit I-5 presents the TSP Fund Account performance compared to the benchmark index performance and calculated the tracking error for the 12 months ended December 31, 2022 (excluding the I Fund as SSGA did not begin management of the I Fund until December 2022).

Exhibit I-5

TSP Fund Account	TSP Fund Account Performance ¹⁹	Benchmark Index Fund	Tracking Error
C Fund Account	-18.11%	-18.11%	0.00%
S Fund Account	-26.25%	-26.54%	0.29%
F Fund Account	-13.09%	-13.01%	-0.08%

¹⁸ Sources: [REDACTED]

¹⁹ This column reflects the performance of the “TSP Fund Accounts” residing at SSGA and is reported to the Agency prior to any deductions of TSP administrative costs and certain transaction costs. The Agency separately reports performance for the individual TSP Funds net of the aforementioned costs.

G. Proxy Voting²⁰

In accordance with FERSA Section 8438 (f), “The Board, other Government agencies, the Executive Director, an employee, a Member, a former employee, and a former Member may not exercise voting rights associated with the ownership of securities by the Thrift Savings Fund.”

The contracts between the Agency and SSGA delegate authority to SSGA to vote proxies associated with equity securities held in the C Fund Account, S Fund Account, and I Fund Account. SSGA is required to vote such proxies in the best interests of the TSP.

Although the Board does not vote proxies directly, its fiduciary responsibilities include monitoring SSGA’s voting of the C Fund Account, S Fund Account, and I Fund Account proxies. SSGA’s fundamental policy is to vote in the best economic interest of its clients. SSGA publishes global proxy voting guidelines. The Agency has reviewed such guidelines for adherence to appropriate fiduciary standards. To facilitate the Agency’s monitoring of proxy voting, SSGA provides the Agency with (1) its written proxy voting guidelines when they are revised or updated, and (2) monthly reports of how it has voted each proxy issue for the applicable TSP Fund Account. The Agency reviews the proxy voting policy and the quarterly independent reports by Institutional Shareholder Services (ISS), a proxy voting analysis firm, to assess whether SSGA has voted the proxies according to SSGA’s written guidelines, and reports results quarterly at a regularly scheduled meeting for Board members.

SSGA reconciles position holdings in the C Fund Account, S Fund Account, and I Fund Account against the ballots received with respect to these accounts to ensure all the TSP Fund Accounts’ shares are voted. Shareholder meetings are then sorted and assigned to the relevant proxy analyst for review. The proxy analyst votes all matters with consideration for the economic benefit to the TSP Fund Account.

²⁰ Sources: 5 USC 8438(f); [REDACTED] TSP monthly Board minutes throughout the period January 2022 through January 2023 available on FRTIB’s website; [REDACTED]

H. Audits and Regulatory Reviews

State Street, its subsidiaries, and joint venture operations are subject to examinations and audits by government regulatory agencies and independent public accountants. From January 1, 2022 through December 31, 2022, examinations and audits related to SSGA included the following:

- Ernst & Young LLP – Financial Statement and Internal Control Audits of SSGA’s TSP Fund Series for the Year Ended December 31, 2022;
- Ernst & Young LLP – Financial Statement Audit of State Street for the Years Ended December 31, 2022 and 2021;
- [REDACTED]
- [REDACTED]
- [REDACTED]

We reviewed the reports related to the examinations and audits listed above. No matters were noted during our review of these reports that would impact our conclusions on the performance audit objectives listed in Section I.A of this report.

I. TSP Investment Statistics²¹

As of December 31, 2022 and 2021, the largest portion of TSP investments held by SSGA was in the C Fund Account. The chart below (Exhibit I-6) presents a summary of the net asset balances in the C, S, F, and I Fund Accounts as of December 31, 2022 and 2021. The data in this table does not include the net asset balances related to the Cash Equivalents Account. The net asset balances in the Cash Equivalents Account as of December 31, 2022 and 2021 were \$1,072.96 million and \$398.83 million, respectively.

²¹ Sources for the statistics in this section: TSP Fund Series Audited Financial Statements as of December 31, 2022 and 2021 and TSP Fund Performance, Rates of Return at www.tsp.gov/fund-performance.

Exhibit I-6

TSP Fund Account	Net Asset Balances December 31, 2022 (in millions)	% of Total December 31, 2022	Net Asset Balances December 31, 2021 (in millions)	% of Total December 31, 2021
C	26,186.99	43.6%	32,567.09	53.0%
S	15,654.68	26.0%	21,345.30	34.8%
F	6,023.19	10.0%	7,477.29	12.2%
I	12,235.51	20.4%	-	0.00%
Total	\$60,100.37	100.00%	\$61,389.68	100.00%

The table below (Exhibit I-7) compares the TSP Fund returns for the G, F, C, S, and I Funds for the 12-month periods ending December 31, 2022, 2021 and 2020.

Exhibit I-7

Rates of Return on TSP Investment Funds (unaudited)			
TSP Fund	12 Months Ended December 31, 2022	12 Months Ended December 31, 2021	12 Months Ended December 31, 2020
G Fund	2.98%	1.38%	0.97%
C Fund	-18.13%	28.68%	18.31%
S Fund	-26.26%	12.45%	31.85%
F Fund	-12.83%	-1.46%	7.50%
I Fund	-13.94%	11.45%	8.17%

II. OBJECTIVE, SCOPE AND METHODOLOGY

A. Objective

The U.S. Department of Labor (DOL), Employee Benefits Security Administration (EBSA) engaged KPMG LLP (KPMG) to conduct a performance audit of the State Street Global Advisors Trust Company's (SSGA or investment manager) Thrift Savings Plan (TSP) investment management operations related to the Fixed Income Index Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Investment Fund (S Fund), and International Stock Index Investment Fund (I Fund).

The objectives of our performance audit were to:

- Determine whether the investment manager implemented certain procedures to: (1) promptly and accurately deposit TSP investments in the authorized investment funds; (2) accurately summarize and report TSP investment transactions, including investment management fees relating to TSP investment funds, to the Federal Retirement Thrift Investment Board's (Board) Staff (Agency); (3) accurately report the daily yield on each investment fund, less authorized management fees, to the Agency; (4) invest index investment funds in a portfolio that matches the indices selected by the Board; (5) vote proxies of the C, S, and I Fund investments in accordance with the investment manager's stated guidelines; and (6) accurately and timely process TSP investment transactions.
- Test compliance of SSGA's TSP investment management operations with United States Code (USC) Chapter 5, Sections 8438(b), 8438(c), and 8477(c)(2), Code of Federal Regulations (CFR) Title 29, Part 2509.08-2, Individual Prohibited Transaction Exemptions 2013-05, and Prohibited Transaction Class Exemptions 2006-16 and 2002-12.

B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the American Institute of Certified Public Accountants' *Standards for Consulting Services*, using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2022, through December 31, 2022. We performed the audit in four phases: (1) planning, (2) arranging for the engagement with SSGA, (3) testing and interviewing, and (4) report writing.

The planning phase was designed to assist team members to develop a collective understanding of the activities and controls associated with the applications, processes and personnel involved with SSGA’s investment management operations. Arranging the engagement included contacting SSGA and agreeing on the timing of detailed testing procedures.

During the testing and interviewing phase, we conducted interviews, collected, and inspected auditee-provided documentation and evidence, and participated in process walkthroughs. Our audit procedures included selecting [REDACTED] samples from populations of investment related transactions and reports to achieve our audit objectives. Procedures performed included testing the following:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

We primarily conducted these test procedures remotely in coordination with personnel from State Street’s headquarters in Boston, MA. In Appendix B, we identify the key documentation provided by SSGA personnel that we reviewed during our performance audit.

Criteria used for this engagement are defined in EBSA’s *Thrift Savings Plan Fiduciary Oversight Program*, which includes 5 USC Chapter 84 and 5 CFR Chapter VI.

The report writing phase entailed drafting a preliminary report, conducting an exit conference, providing a formal draft report to SSGA for comment, and preparing and issuing the final report.

III. FINDINGS AND RECOMMENDATIONS

A. Introduction

We performed procedures related to the Thrift Savings Plan (TSP) investment management operations for the Fixed Income Index Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Investment Fund (S Fund), and International Stock Index Investment Fund (I Fund) while remotely conducting a performance audit related to activities at State Street Global Advisors Trust Company (SSGA or investment manager). Our scope period for testing was January 1, 2022, through December 31, 2022. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix B), and observing selected procedures.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2022 through December 31, 2022, SSGA implemented certain procedures to (1) promptly and accurately deposit TSP investments in the authorized investment funds; (2) accurately summarize and report TSP investment transactions, including investment management fees relating to TSP investment funds, to the Federal Retirement Thrift Investment Board's (Board) Staff (Agency); (3) accurately report the daily yield on each investment fund, less authorized management fees, to the Agency; (4) invest index investment funds in a portfolio that matches the indices selected by the Board; (5) vote proxies of the C, S, and, I Fund investments in accordance with its stated guidelines; and (6) accurately and timely process TSP investment transactions.

As a result of our compliance testing, we did not identify any instances of noncompliance with United States Code Chapter 5, Sections 8438(b), 8438(c), and 8477(c)(2), Code of Federal Regulations Title 29, Part 2509.08-2, Individual Prohibited Transaction Exemptions 2013-05, or Prohibited Transaction Class Exemptions 2006-16 and 2002-12 in SSGA's TSP F, C, S, and I Funds investment management operations.

We noted no prior recommendations, and the current engagement produced no new recommendations.

AGENCY'S RESPONSE



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

September 15, 2023

Mr. Michael Auerbach
Chief Accountant
Employee Benefits
Security Administration
United States Department of Labor
Suite 400
122 C Street, N.W.
Washington, D.C. 20001-2109

Dear Michael:

This is in response to KPMG's email dated August 25, 2023, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of State Street Global Advisors Trust Company's Thrift Savings Plan Investment Management Operations, dated September 2023.

We are pleased to note during the FY 2023 audit that the auditors did not identify any instances where TSP operations did not comply with FERSA and with applicable Board regulations and bulletins as of December 31, 2022. We are very pleased to note there are no audit recommendations.

Thank you once again for the constructive approach that the Department of Labor and its contractors are taking in conducting the various audits of the TSP. The information and recommendations that are developed as a result of your reviews are useful to the continued improvement of the Thrift Savings Plan.

Very truly yours,

A handwritten signature in blue ink that reads "Ravindra Deo".

Ravindra Deo

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

- SSGA Fraud Risk Management Policy
- Proxy Voting Guidelines issued January 1, 2022 through December 31, 2022
- SSGA Proxy Voting Reports issued by ISS from January 1, 2022 through December 31, 2022
- SSGA, Federal Employees Thrift Savings Plan - F Fund Transaction Summary Reports, January 1, 2022 through December 31, 2022
- SSGA, Federal Employees Thrift Savings Plan - C Fund Transaction Summary Reports, January 1, 2022 through December 31, 2022
- SSGA, Federal Employees Thrift Savings Plan - S Fund Transaction Summary Reports, January 1, 2022 through December 31, 2022
- SSGA, Federal Employees Thrift Savings Plan - I Fund Transaction Summary Reports, January 1, 2022 through December 31, 2022
- Historical Performance Analysis, (Summary of Results and Month-to-Month Results) - F Fund, through December 31, 2022
- Historical Performance Analysis, (Summary of Results and Month-to-Month Results) - C Fund, through December 31, 2022
- Historical Performance Analysis, (Summary of Results and Month-to-Month Results) - S Fund, through December 31, 2022
- Historical Performance Analysis, (Summary of Results and Month-to-Month Results) - I Fund, through December 31, 2022
- Composition of SSGA's Equity Index Account as of December 31, 2022
- Composition of SSGA's Small Cap Stock Index Investment Fund Account as of December 31, 2022
- Composition of SSGA's International Stock Index Investment Fund Account as of December 31, 2022
- Composition of SSGA's Fixed Income Index Account as of December 31, 2022
- TSP F Fund Profile as of December 31, 2022
- SSGA Annual Compliance Acknowledgement

Contracts and Other External Fund Information Documents

- Contracts and related modifications, statements of work, and other documents comprising SSGA's contract to manage the TSP's C, F, S, and I fund investments
- Composition of the MSCI EAFE Index as of December 31, 2022
- Composition of the S&P 500 Index as of December 31, 2022
- Composition of the Dow Jones U.S. Completion Total Stock Market Index as of December 31, 2022

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

- Composition of the Bloomberg Barclays U.S. Aggregate Bond Index as of December 31, 2022
- “F Fund” page posted on www.tsp.gov
- “C Fund” page posted on www.tsp.gov
- “S Fund” page posted on www.tsp.gov
- “I Fund” page posted on www.tsp.gov

█ [REDACTED]