

CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
SPECIAL MEETING OF TUESDAY, JANUARY 7, 2015
2:00 P.M. - ROOM 405, CITY HALL

MEMBERS/DESIGNEES PRESENT:

Mr. W. Martin Morics, Plan Member, Chairman – conference line
Mr. Jerry Allen, ERS Director
Mr. Mark Buetow, Milwaukee Police Association
Ms. Margaret Daun, Assistant City Attorney
Mr. Joe Davis, Sr., Alderman – conference line
Ms. Renee Joos, Fiscal & Risk Manager
Mr. James Klajbor, Deputy City Treasurer
Mr. Nicholas Kovac, Alderman
Ms. Sandra Rotar, Plan Member

EXCUSED/ABSENT:

Mr. Steven L. Mahan, Community Development Grants Admin. – excused
Mr. Mark Nicolini, Budget Director – excused

OTHERS PRESENT:

Mr. Ben Taylor, Callan Associates Inc. – conference line
Mr. Levi Lathen, Nationwide Retirement Solutions – conference line
Ms. Amber Peters, Nationwide Retirement Solutions – conference line
Mr. Jeff Godorhazy, Nationwide Retirement Solutions – conference line
Ms. Cyndee Dragics, Nationwide Retirement Solutions – conference line
Mr. Gary Guibert, Northern Trust – conference line
Ms. Lisa Jakimczyk, Northern Trust – conference line
Mr. Paul Egan, Northern Trust – conference line
Mr. Richard Romero, US Bank Institutional Trust and Custody – conference line
Ms. Elaine Bieszk, Administrative Assistant IV
Mr. Witold Dziadowicz, Executive Director

A quorum being present, Mr. Morics, Chairman of the Board asked Mr. Klajbor to officiate the meeting since he is on conference line. Mr. Klajbor called the meeting to order at 2:06 p.m.

1. Replacement of Vanguard Total Stock Market Index Trust with a mutual fund

Mr. Taylor explained right before the Christmas holiday Vanguard requested that the Board consider transitioning from the Use of the Vanguard Total Stock Market Index Trust to the

Vanguard Total Stock Market Index Fund within 75 days of the request. Vanguard required the City to sign the new Declaration of Trust agreement to continue to use the fund. Ms. Tangen reviewed the document stating the documentation they provided was really on a lot of points inapposite it really misstated the Plan's status as an eligible plan and had a lot of certifications that simply weren't applicable to us so right out of the gate we couldn't sign it within the very short time frame provided.

Ms. Daun asked Mr. Taylor what reason was given by Vanguard for a) waiting until eight business days before the custodial bank conversion and b) why is the new Trust documentation needed at all? Mr. Taylor stated no reason was given. He stated we were basically told that they needed it.

Ms. Daun stated as to the merits of this, we are talking about Investment Guideline revisions and then enrollment material changes, marketing material change, a fund fact sheet change and a participant communication update and at least mailing, email, newsletter, website so we are talking about eight pieces that they are now requiring the City to do in terms of moving to the fund instead of the Trust. To her that level of participant displacement is not merited by a one basis point fee efficiency and her view would be that we simply renegotiate on an expedited basis the Trust document and that if we are getting close to the 75 days we simply say to Vanguard we are going to take more time, deal with it. They should have known months in advance of December 31st that this was going to be necessary, this is a totally inappropriate way to conduct business on Vanguard's part in her opinion.

Mr. Klajbor asked Ms. Tangen if she thought it was possible to get this renegotiated within 75 days. Ms. Tangen stated yes, it wasn't possible to do it within two days, Vanguard just gave us canned documents and the Declaration of Trust she hasn't had a chance to review side by side to see how it has changed but that one is not a highly negotiable document.

Motion was made that the Board authorizes the EFC to work with the City Attorney's office to develop and then approve whatever the revised Trust documents are so there is no change from the Trust to the fund and that we do that as expeditiously as possible and report back to the Board as early as possible hopefully so the Board can approve the finalized Trust document prior to the expiration of the 75 days. Mr. Klajbor asked if there were any objections to the motion hearing none so ordered.

2. Update – Northern Trust conversion

Mr. Gary Guibert summarized the project on how the onboarding process first began he thinks it will give perspective on the complexity of the conversion that occurred on January 2nd and the steps that were taken by all of the players. He stated the onboarding process was a success on January 2nd. The transition occurred. Northern was able to reconcile to NRS and to the Fund families, doing so allowed Northern to issue its set of NAVs without interruption or black-out to participants. Mr. Guibert stated as fiduciaries you should feel

comfortable that the NAV being processed currently and both at the fund level and the participant level the latter being by Nationwide that the participants are not negatively impacted in anyway with the conversion.

Mr. Allen asked about the reconciling items that are yet to be resolved he asked if they can reassure the Board that the reconciliation however it works will not in any way impair the participant's equity in their accounts and in the fund. Gary G. - What he will say is from Northern's perspective the reconciliation that needs to occur for them to feel comfortable with the NAV that that reconciliation has taken place the breaks that do exist Northern Trust is serving as facilitators to Nationwide but those trades have not transferred over so what he can confirm is they are willing to do whatever they can to make sure that those items prior to January 2nd so the dates of those breaks are resolved but from Northern's point of view he can assure you that the activity that they have that they expected has been reconciled they are comfortable with anything prior to that he can't speak to.

Ms. Daun would like to hear from Nationwide as to the status and their understanding of a \$1.6 million reconciling error and then she would like to hear from Mr. Romero from US Bank as to their view and progress to date on the \$1.6 million reconciling problem.

Mr. Lathen stated they have a meeting scheduled for January 20th with Mr. Taylor and US Bank to walk through the issue. Nationwide's view is that they have been reconciling with the mutual fund companies from day one and their records are in good order so Nationwide does not see an issue on their part. The issue of the \$1.6 million in their opinion is the reimbursement that US Bank owes Nationwide at this point.

Ms. Daun asked when is the last time that Nationwide reconciled out all transfers from US Bank which Nationwide felt it was entitled to. Ms. Daun is the reconciliation done on a monthly basis, is it done on a quarterly basis, is it never done, like when accounting discrepancies occur you typically go back to the last time you know that you reconciled out all your accounts then you move forward to identify when the error occurred. Mr.

Godorhazy stated there is not reconciliation with the actual Bank their reconciliations are with the participant system and with the underlying fund partners. Ms. Daun voiced her concern and for the purposes of the record she is going to state again that it has been her instruction and her request expressly that all of those conversations be recorded that the Executive Director participate in all conversations between entities on this issue and if possible Mr. Taylor participate as well likewise City folks need to be copied on all of these emails, ultimately at the end of whatever internal discussions US Bank and Nationwide have if you still have no agreement as to the \$1.6 million what happens next because in the City's view this isn't our problem the fact for whatever reason it has not been Nationwide's practice to reconcile what it believes it should be receiving in cash from our custodial bank for we don't know how long is not the City's problem, it is not this Plan's problem.

Ms. Daun stated so the answer to her question is basically Nationwide doesn't do that reconciliation usually and we don't know when it was done last and we've got questions about US Bank's logistical processing which we feel need to be answered before we can uncover this. Mr. Lathen stated she is correct and it is Nationwide's view that this is an issue between US Bank and Nationwide and they are responsible for resolving this issue.

Mr. Romero stated US Bank will work with Nationwide to resolve this issue. He stated in

reviewing the transaction US Bank notified the City and Nationwide with the first transaction they could not send to Nationwide back in April or June letting them know that US Bank would not be able to send cash, US Bank doesn't have it. US Bank believes this has been a compounding issue since April or June since it first started and they haven't heard anything from Nationwide up until December. He stated what US Bank ultimately sees is that on a daily basis what they do is execute a trade unto their trust system so they are shadow posting activity in essence the activity from the day is supposed to net out to either an outgoing wire or a wire coming to them. What they see and they provided an example to Nationwide is US Bank believes they have been overstating cash on their daily trade sheet that they have been receiving from Nationwide and US Bank believes overstating cash has been compounding since it first started in April or June and has gotten them to where they are today to the \$1.6 million.

Ms. Daun stated ultimately the Board and EFC want a memorandum something in writing from both entities explaining their view of what caused the discrepancies, when they occurred, who was noticed and what actions were taken to remediate and please be sure that it is written clearly and that it is not an exercise in obfuscation and obtuseness so that we can have an understanding of what actually transpired and she thinks it is a fair approach and it will avoid undo interference from the Board in terms of letting the two entities try to sort that out.

Mr. Klajbor stated moving forward we have discovered an accounting control situation here so going forward how can we make sure that our auditor is testing the appropriate things and he is hoping that Callan and the Executive Director can get together and look at what our current auditing contract requires and maybe we need to revisit that contract and beef up the specs so that we are doing a more thorough job that we don't have these sorts of things happening in the future. Mr. Taylor will say you have on the line today people who are providing a solution, with Northern Trust onboard and the new structure with Nationwide we should have a substantially superior control process in place now which in no way means that we should not also beef up the audit process, we should, but the Board should be encouraged that not only can we address this with the audit process but also because of the way the organizations are now tied together.

Ms. Daun wants to make sure everyone understands the audit as previously performed wouldn't have uncovered this the way it was scoped, yes it can be expanded but practically speaking because of the changes that Callan has recommended that the Board then acted upon we hopefully will have eliminated the potential for this sort of under the hood rolling error. Mr. Klajbor so for clarification in the past Nationwide would advance the money to take care of payments how is that going to be done now with Nationwide and Northern Trust. Mr. Egan from Northern Trust stated he can tell you that when it comes to Plan related activity all the money is custodied here at Northern Trust the only money that is leaving the Plan is being sent to Nationwide to cut benefit payment checks for participants to take withdrawals and loans and money coming into the Plan is either coming in from the City of Milwaukee to fund payroll contributions or is coming directly from Nationwide to

fund rollover contributions into the Plan or for loan repayments. Northern Trust has daily checks in place to tie their balances back to Nationwide to ensure their records for participants are equal to theirs and they are also doing a reconciliation between their records of the shares that underlie each portfolio with the fund managers at the fund houses as well.

Mr. Klajbor asked did the transition in any way affect why this pay periods contributions weren't posted to Plan member's accounts on Nationwide's system. His understanding is that the City of Milwaukee's payroll wasn't posted. We had a City employee raise the question he went to check his account balance and he found that the last payroll had not been posted. Ms. Dragics stated that is correct, it was an oversight on Nationwide's part and those contributions were also posted yesterday as of the date received. The contribution should now be able to be seen on their account as of right now.

Ms. Rotar asked Ms. Bieszk to send her a copy of the audit contract.

There being no further comments or questions the meeting adjourned at 2:36 p.m.