

**SPECIAL MEETING
DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES
Thursday, October 6, 2016**

The SPSP/401(k) Trustee Board of the City of San Diego held a special informational meeting regarding Wells Fargo and the Consumer Protection Bureau announcement. The meeting took place in the Retirement System Boardroom. Location: 401 West A Street, 3rd Floor Boardroom, San Diego, California. The meeting was called to order at 1:02 p.m. by Estella Montoya.

Trustees Present: Julio Canizal, Gail Granewich, Mark Hovey
Trustees Absent: Tracy McCraner, 401(k) Trustee (vacant)
Staff present: Estella Montoya, Nancy Stadille, Gilda Smith, Bill Gersten
Presenters: Bill Cottle, Denise Jensen, John Papadopulos, Joe Ready

1. ACTION ITEMS

A. Elect Chairperson Pro-Tem for today's meeting Estella Montoya

Ms. Montoya called for nominations and informed the Board the nomination does not need to be seconded.

MOTION TO NOMINATE MARK HOVEY AS CHAIRPERSON PRO-TEM: Gail Granewich
Approved (2-0), Mr. Hovey abstained

2. STAFF REPORTS AND INFORMATIONAL ITEMS

- Mr. Gersten began with a few prepared remarks regarding Wells Fargo and the creation of two million unauthorized consumer accounts. He advised that the creation of these accounts raised question in the ethics of management and the culture of Wells Fargo. This resulted in the filing of the securities lawsuit, customer class action lawsuit, federal investigations and congressional hearings. He stated the City Attorney's office reviewed the information that was provided by Wells Fargo. As the legal advisor, he feels the City Attorney's office does not have enough in-office expertise necessary to advise the Board if the information provided was sufficient or appropriate.

Mr. Gersten recited a portion of the Master Trust Agreement, which stated the trustees have a legal responsibility to act solely in the interest of the plan participants. If the trustees lack sufficient knowledge necessary to make a decision. The City Attorney's office recommends the Trustees seek an expert legal opinion to assist the Board in determining if any material risk is posed by the current situation or by the fall out of the current situation. Also to be considered are any risks to the funds of City employee plan participants held, administered, or invested in Wells Fargo. Mr. Gersten advised the City Attorney's office would be able to refer the Board with experts that would be able to assist.

- Mr. Cottle started his presentation on his preliminary analysis of the situation by going over the memorandum dated October 5, 2016. Mr. Cottle went over Wells Fargo's insurance policies. He explained that the policies seemed appropriate. The only odd factor is that the majority of Wells Fargo's policies are with one insurance company, National Union Fire Insurance Company of Pittsburgh. The policies are two year policies and will end mid-November 2016. Mr. Cottle advised he wanted to be kept aware of the bidding process and of the companies that are providing the bids. Mr. Cottle states he is not an

insurance expert but it would be logical to believe they will have various insurance companies providing bids.

Mr. Cottle inquired on the size of the index fund that is managed by Wells Fargo in the investment line-up (Wells Fargo/BlackRock S&P 500 Index). Wells Fargo responded that the accounts that the City participates in had significant growth since Wells Fargo began to manage the account. In the future Mr. Cottle will attempt to calculate how much the account has grown since 2007. Mr. Cottle moved on to the bottom of page 1 of the memorandum. He asked Wells Fargo about key management personnel. He wanted more information at the corporate level but the responses he received were at the account level. Mr. Cottle advised that the current team members are qualified, work hard, and do a good job. Mr. Cottle suggested it would be beneficial to ask Christine Martin (Fiduciary and Regulatory Consultant at Wells Fargo) about the firm's recent events.

Mr. Cottle proceeded to page 2 of the memorandum. He received responses in regards to the process and personnel involved in making strategic and succession planning decisions for the firm. Mr. Cottle stated the response was not sufficient and too general. He wanted to know about the hiring process in the event that the CEO were to step down. Mr. Cottle continued with the Sponsor Advisory Council, which includes 50 of Wells Fargo's retirement plan clients. Mr. Cottle wants to know what actions and efforts they are making in regards to recent developments. Mr. Cottle believes Wells Fargo is a fine institution. He stated that the team that manages the City's accounts are good people that do a good job. He believes they look out for the City and the City's best interest. His biggest concern is that he does not want the team to change. He believes the City should get assurances that the team will stay in place going forward. Mr. Cottle believes they did the best review they could with a four day notice. He would like to do a full review of Wells Fargo. He wants to ask more probing questions in making sure the City assets are protected and could not be hurt in any way by other parts of the organization.

Mr. Canizal had a question in regards to the insurance policies. Mr. Canizal asked if it was common practice to have all insurance policies with the same firm. Mr. Cottle advised that it is common to have a few (1-2) policies with the same company but ideally they should be diversified with various insurance companies. He advised the risk would be lower if they have diversification rather than having all major policies with the same vendor. Mr. Cottle briefly advised it might be related to cost but he is not an insurance expert. Ms. Granewich inquired if Mr. Cottle would prepare different questions for Wells Fargo. Mr. Cottle confirmed he would have additional questions to delve further into the issue.

Mr. Hovey introduced Mr. Papadopoulos, Mr. Ready, and Ms. Jensen from Wells Fargo. Mr. Papadopoulos wanted to thank the City for the business the City provides to Wells Fargo. Mr. Papadopoulos provided a brief summary of his background. He is the president of Wells Fargo Retirement. He has worked with Wells Fargo for 20 years he is based out of Charlotte, North Carolina. Mr. Papadopoulos apologized for Wells Fargo's recent events and stated that Wells Fargo takes the culture of their company very seriously. He advised that Wells Fargo admits to the mistakes that were made. He advised they have consultants on board helping correct the mistakes. He explained that as a non-affected party they are doing their normal business day to day.

Mr. Ready has worked with Wells Fargo for 31 years. He leads the Institutional Retirement Plan business. Mr. Ready apologized for any inconveniences the recent incident has caused. Mr. Ready confirmed that the retirement plan accounts are not impacted by the recent events. Mr. Ready advised that the retirement plan system, retirement plan platform, and retirement plan data is all self-contained. There are automated flags,

policies and procedures that prohibit the sharing of data anywhere within the organization. Mr. Ready wants to provide complete assurance that the retirement information is not shared. He states that the information is limited to only those individuals that work within the retirement plan business. Mr. Ready explained employee access to various functions is reviewed on a quarterly basis. Managers have to attest to the accuracy of the access employees are provided within the retirement plan business. They run tests with other compliance groups and risk groups within the organization that validate information by running a series of tests.

Ms. Jensen wanted to respond to Mr. Cottle's concerns regarding the stability of the team handling the City assets. Ms. Jensen stated she has been the assigned relationship manager for over 10 years. She confirmed she is not planning on separating with Wells Fargo. Ms. Jensen stated there is no impact to the team that is assigned to the City due to the issues that have occurred. Ms. Jensen reassured the Board that all of the assets are kept in a separate trust so they are accounted for separately from any of the banking assets.

Ms. Granewich stated she understands Wells Fargo Institutional Retirement Trust (IRT) is separate from Wells Fargo banking. The banking side did not have proper procedures in place to catch the recent events. She wants to know how she should trust that the Institutional Retirement Trust has the proper internal controls. Mr. Ready went into detail answering Ms. Granewich's question. He started off by saying he first needed to explain the control process and go over the controls that are in place. He explained that there are three lines of defense. Mr. Ready described the first line of defense within Wells Fargo was the line of business owners accountability and responsibility for all liability and compliance associated with the business and business process.

Mr. Ready continued with the second line of defense which is the independent control environment that is corporate compliance and corporate risk. He explains that within those groups there are dedicated resources to the retirement plan business. The compliance team tests on average 350 functions a year within the defined contribution environment. Those tests are conducted on a monthly basis by each of the different functions and rotate within a 12 month period depending on the risk rating. Those tests are done by independent groups, they take a random sample of actual activities on a plan level and a participant level. They look at the control process and prove if they do what they say they do and then report the findings. In addition, the risk group is also responsible to oversee changes in the environment such as system changes, regulatory changes, or risks that occur in the industry.

Mr. Ready went on to inform on the third line of defense is the internal audit group. They periodically use risk ratings to audit high risk rated transactions. They do an independent test and report findings. Mr. Ready states Wells Fargo Institutional Retirement Trust is regulated by the Office of Comptrollers and Currency (OCC) and are also regulated by the Federal Reserve. Wells Fargo IRT is subject to examination from the OCC and the Federal Reserve. On average, they get two or three exams a year from the OCC. Mr. Ready went on and advised that they also utilize KPMG. KPMG reviews the control environment and the transaction environment. They put together a SOC 1/SSAE 16 report which test the control environments and reports findings on them. Mr. Ready advised it is difficult to compare Wells Fargo banking controls to the Wells Fargo IRT controls because the controls change due to line of business. Mr. Ready proceeded to go over the control environment around changes. He explained that at a plan level, for example, when Ms. Jensen gets an authorized change for the City whether that's a change to the plan rule or provision, Ms. Jensen gets the authorized requirements and they go to an independent third party group. Ms. Jensen has no authority to make changes to any plan. The independent group will

review the sources and documentation for the change that is requested on the platform and validate the authenticity of the change. Once that is done and the change is made it goes through an independent quality control group. They confirm the source of the documentation and validate it before it goes to production. Mr. Ready states that any changes made at a participant level online or at the call center they (participants) receive confirmations.

Ms. Granewich stated the information was very helpful. She inquired if they had any significant findings through KPMG within the last 2 years. Mr. Ready replied they have not had any significant findings. Mr. Canizal stated he understands the Wells Fargo retirement assets are segregated from Wells Fargo banking. He wants to know on a legal perspective if Wells Fargo banking and Wells Fargo IRT are accessible to each other in the event that there needs to be adjustments or penalties. Mr. Ready advised that the Wells Fargo retirement assets are not accessible. He explained that all retirement assets within Wells Fargo IRT have their own nominee names so they are all registered as trust assets. In the event of a bank failure the legal title of those assets are segregated from Wells Fargo banking assets. Mr. Ready advised they are titled for the benefit of trust account holders and they are not subject to any general creditors. Mr. Hovey stated he understands that Wells Fargo IRT is walled off from Wells Fargo banking and it seems it is very secure. He wants to know if within the retirement side of Wells Fargo if there are any related governance, learnings, or potential changes they may be making on the retirement side as a response to recent events on the Wells Fargo banking side. Mr. Papadopoulos replied that the answer is no. He explains that with the constant review and analysis they receive they are always finding ways to improve. He confirmed that these improvements are certainly not as a result of the Wells Fargo retail banking events. Mr. Papadopoulos states that by law and by structure they are very comfortable with the way they are organized and the protections they offer to their clients.

Mr. Hovey inquired if the Board can contact the Sponsor Advisory Council to understand what they are doing or if they should use Wells Fargo as the contact point for the Sponsor Advisory Council. Mr. Ready explained that the Sponsor Advisory Council is about 50 organizations that are different sizes. They assist with ongoing business, provide feedback, and they are the voice of the customer. To be a member of the Sponsor Advisory Council you must be invited. It is a three year term and they rotate the groups for new and different perspectives. They formally meet once a year. The Sponsor Advisory Council also meets for special situations such as the recent events. They are dedicated only to the defined contribution retirement business. Mr. Papadopoulos advised that they are talking with the Sponsor Advisory Council and informing them of the current situation with Wells Fargo banking. The Council candidly advises and provides feedback. Mr. Hovey asked if the Board could access to the Sponsor Advisory Council responses. Mr. Ready replied that can easily be done.

Mr. Hovey stated he believes he does not have a fiduciary responsibility to City employees who use Wells Fargo as their primary banking institution. He wants to know if any City employees were affected with the recent Wells Fargo incident. Mr. Ready stated that he does not have any access to Wells Fargo banking information. He advised that due to the lack of sharing information between the two sections of Wells Fargo they are unable to see who is affected. Mr. Ready advised that on average they receive about 50,000 phone calls per week from participants with defined contribution plans. Since the settlement was announced they received on average 75 phone calls per week related to the banking settlement questions.

Mr. Hovey wanted to know more information about the incident and if people lost money because of these opened accounts. Mr. Papadopoulos advised that customers did not necessarily lose money. He explained that Wells Fargo employees would open accounts and transfer funds from an existing account to a new account. He stated that funds did not go to Wells Fargo employees. He advised some customers may have paid for credit card fees and possibly have their credit score affected. Wells Fargo banking is going over all of the possible scenarios and correcting their mistakes. Ms. Jensen proposed she would like to create a custom communication piece to the Plan Participants addressing any concerns and questions they may have.

Mr. Hovey provided staff direction to have Mr. Cottle ask more questions of Wells Fargo. Mr. Canizal agreed with this request. Mr. Hovey also stated he wanted to go over Mr. Gersten's suggestion to meet with an expert. Mr. Hovey asked Mr. Gersten if he knew when they could meet with a firm that had more experience with banking. Mr. Gersten stated that it depended on Mr. Cottles' new questions. Mr. Gersten suggested once Mr. Cottle presents his findings with more thorough questioning of Wells Fargo, the Board can make an action item. Depending on the information provided they can decide then if they feel comfortable or if they believe they need to seek an expert. Ms. Montoya stated staff can work with Mr. Cottle on additional information he needs and go over the timeline. She confirmed some of the information he is seeking will take time. This will be placed as an action item for the next meeting. At that time they can discuss bringing in a legal advisor, if deemed appropriate. Mr. Hovey stated he also wanted to get responses from the Sponsor Advisory Council. Mr. Ready advised the next Council meeting is March 2017. He confirmed they will provide additional information. Ms. Jensen confirmed she is Mr. Cottle's contact for any questions he may have.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

- Ms. Montoya advised the election will be completed by October 12; by the next meeting they will have an additional trustee. Tracy McCraner is out on an extended leave and more will be known on her status by the next meeting.
- Mr. Gersten requested Ms. Jensen provide updates on the status of the claims with the banking business on a continuing basis. Ms. Jensen agreed.

4. PUBLIC COMMENT

None

The next meeting is scheduled for November 17, 2016.

Meeting adjourned at 2:03 p.m.

Backup documentation is available at Risk Management.