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## ***CORRESPONDENCE MEMORANDUM***

**DATE:** February 10, 2016  
**TO:** Deferred Compensation Board Members  
**FROM:** Shelly Schueller, Deferred Compensation Director  
**SUBJECT:** February 9, 2016 Investment Committee Meeting Notes

1. Bob Lawler and Michael White of Vanguard joined the Investment Committee by teleconference to discuss the recent “whistleblower” lawsuit against Vanguard and how Vanguard’s corporate structure differs from other mutual fund companies.

Mr. White, senior legal counsel at Vanguard, has been working on the [“whistleblower” lawsuit](#). In this suit, a former Vanguard employee has alleged that Vanguard is not paying an appropriate amount of taxes. If this were to hold up in court, Vanguard could be forced to raise the fees it charges for its mutual funds to cover unpaid taxes. Mr. White said the case originally was dismissed, but has been appealed. The initial case was dismissed in the New York state court due to an ethical violation: The whistleblower is a former Vanguard employee and as such is barred from discussing the firm’s privileged information. Mr. White anticipates this case will continue through the legal system for several years.

At the request of the Board at its January 2016 meeting, Mr. Lawler provided additional information on Vanguard’s corporate structure. He stated that Vanguard is structured differently than most mutual fund companies in that it is owned by its individual funds’ shareholders, not a specific company. The intent in structuring Vanguard this way was to help keep mutual fund fees low for the benefit of its owners/shareholders. The Board of Directors for each fund is elected by the shareholders of the fund, and the Boards may fill vacancies by appointing a director, provided that at least two-thirds of the Board was elected by the shareholders. If the Board is below two-thirds shareholder-elected, then a proxy that includes the full slate of directors is offered. This restores the Board to 100% elected by the shareholders.

John Nelson requested that Vanguard provide additional information on how the Board of Directors is selected for each of the Vanguard funds offered by the WDC,

Reviewed and approved by Matt Stohr, Administrator  
Division of Retirement Services

Electronically Signed 2/16/16

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including the voting procedures used. Mr. Lawler provided this information for the committee to review in late February 2016.

2. The Investment Committee discussed the investment performance results as of December 31, 2015 with Bill Thornton of Advised Assets Group. The report does not reflect the more recent volatility in the first several weeks of 2016, where small cap funds, in particular, have struggled. This report is from the end of 2015, when WDC participant assets topped \$4 billion. Mr. Thornton noted that the T. Rowe Price Mid-Cap Growth fund had stellar results in 2015. Conversely, the Federated 2-5 Year fund did not fare well. As the committee has heard previously, this fund may look bad due to the small size of the benchmark group and because the Federated fund has a longer duration than most of its benchmarks.

Mr. Thornton explained several revisions to the performance results report, including the addition of an expense ratio summary page that provides an excellent look at how WDC fund expenses compare to peer plans record kept by Empower Retirement.

John Nelson requested that the Stable Value Fund data be added to the performance benchmarking pages, which Mr. Thornton will provide in the next report.