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DRAFT

MINUTES OF THE MEETING
OF THE BOARD OF TRUSTEES OF
UNITE HERE LOCAL 25 AND HOTEL ASSOCIATION OF WASHINGTON, D.C.
PENSION FUND
HELD ON DECEMBER 10, 2013
VIA TELECONFERENCE.

The following Trustees were present:

UNION TRUSTEES	EMPLOYER TRUSTEES
John Boardman - Chairman	Solomon Keene - Secretary-Treasurer
Stephanie Steer	Steve Smith
Linda Martin	Joel Manion

Also present were:

Anne Mayerson - Bredhoff & Kaiser, PLLC
Fredric Singerman - Seyfarth Shaw, LLP
Henry Jaung - Meketa Investment Group
Anne-Marie Sims - Associated Administrators, LLC
Dawn Welch – Associated Administrators, LLC
Kevin Woodrich - Cheiron

I. CALL TO ORDER

A quorum being present, Chairman Boardman called the meeting to order.

II. MINUTES

Board Meeting, September 4, 2013

Ms. Sims reported that she had received no further comments on the draft of the subject minutes, which had been circulated prior to this meeting.

On Motion made and seconded, the Trustees approved the following resolution:

RESOLVED that the minutes of the Board meeting held September 4, 2013 are approved.

III. <u>INVOICES</u>

Ms. Sims presented a list of invoices dated December 10, 2013. It was noted that there were no additions, deletions or changes to the list.

On Motion made and seconded, the Trustees approved the following resolution:

RESOLVED that the invoices set forth in the list dated September 4, 2013 are approved for payment.

IV. <u>AUDITOR REPORT</u>

<u>Financial Statements for Years Ended December 31, 2012 and 2011</u>

Mr. Geiman of Novak | Francella, LLC ("Novak") distributed copies of the Financial Statements for years ended December 31, 2012 and 2011, a copy of which is attached to and made a part of these minutes as Exhibit A. He confirmed that the financial statements, in Novak's opinion, present fairly, in all material respects, the financial status of the Fund. Mr. Geiman then reviewed the audit report in detail. Mr. Geiman reported that the Forms 990 and 5500 would be filed under extension

V. <u>PAYROLL AUDIT COLLECTIONS REPORT</u>

Ms. Sims referred to the Payroll Audit Collections Report dated December 6, 2013 included in the meeting book. A copy of the report is attached to and made a part of the minutes as Exhibit A. Ms. Sims reviewed the report, which confirmed the results to date of the collection of payroll audit deficiencies after receipt of the audits from Calibre and before referral of unpaid billed deficiencies to the Fund's Collection Counsel.

VI. <u>COLLECTION COUNSEL REPORT</u>

Ms. Sims reported that Mr. Dan Katz and Ms. Ellen Ranzman were unable to attend the meeting, but that there were no collection matters requiring Board action.

VII. INVESTMENT CONSULTANT REPORT

The Trustees welcomed Mr. Jaung from Meketa Investment Group (“Meketa”).

Agenda

Mr. Jaung began by outlining the agenda for the presentation.

(1) Third Quarter 2014 capital markets review, highlighting the reasons for the volatility we’ve experienced during the year.
(2) Pension Plan summary and review, including all recent activities, asset allocation, attributions, potential new investments, and re-balancing.
(3) Introduction to direct lending strategy, a new asset class Meketa is going to invest in for the Pension Plan. This section will also include a discussion on White Oak, a direct lending manager Meketa has identified as a potential candidate.
(4) An overview of the emerging markets. This asset class had a large draw down in 2013, so the purpose of this section will be to re-assess this asset class and share with the Trustees Meketa ’s thoughts on emerging markets as we move forward in 2014 and beyond.

Capital Markets Review

Mr. Jaung began by saying that the economy is not exactly hitting on all cylinders, but there are enough positives to be cautiously optimistic. He referred back to a question Mr. Boardman asked earlier in the year regarding the state of the U.S. economy, more specifically, is it strong enough to withstand the potential Fed tapering? Mr. Jaung’s response was in the affirmative back then, believing that he saw enough signs of a mild recovery such that the economy would continue to improve, even if the Fed began the tapering program. Mr. Jaung admitted that he was right and wrong. Wrong in the sense that the market reacted very negatively during Q2 as interest rates rose, emerging markets got hit hard as did the high grade bonds, including TIPS as the Fed whispered the mere possibility of tapering. He said he was “right” in a sense that his comment was a bit premature. Move the clock forward a few months to today, with the possibility of Fed tapering very strong, the markets are taking this as a positive signal. This is very different from earlier in the year. We saw a string of positive data recently, including better employment numbers, auto sales, housing, China’s improving growth and a near end of the year budget deal. Prior to November, positive data points have all been received negatively by the markets as they were viewed as reasons for the Fed to taper. Now, they are viewed positively. The markets are beginning to believe that the economy is strong enough to improve, even with the potential Fed tapering. Mr. Jaung mentioned this is what he meant by being premature in his earlier in the year comment and ended this section by stating that he is cautiously optimistic.

Executive Summary

Mr. Jaung noted that the asset classes with the largest negative returns during the second quarter (Q2) rebounded in the third quarter (Q3), some dramatically. The most significant detractors to the Pension Fund during Q2 were the emerging markets equity, (-8.1%), natural resources, (-10.8%), TIPS (-7.1%), and emerging markets debt (-7%). He reported that all of these asset classes rebounded significantly during Q3, led by natural resources (+7.5%), and emerging markets equity (+5.8). TIPS rebounded modestly, returning 1% during Q3. The one asset class that did not rebound was the emerging markets debt. The drag was due to the continued heavy pressure on the local currencies as the concern for FDI (foreign direct investments) continued to weigh them down.

Mr. Jaung moved to discuss the specifics of the Pension Plan. He noted that the Plan's market value at the end of September was $131.9 million, an increase of $5.7 million from the previous quarter end. The Pension Plan saw a strong 3.9% return during Q3 with an additional 2.6% in October, which brought the total YTD return through October to 8.9%.

The Pension Plan trails the benchmarks, policy and target, by small margins since Meketa's start date in October 2011 and calendar year to date. The underperformance to policy benchmark was primarily due to the plan's lack of exposure to TIPS, emerging markets debt, and commodities. The underperformance to the target benchmark was due to the underperforming emerging markets equity and bond managers.

Mr. Jaung noted that the Fund had little activity during the third quarter. In September, an additional $2 million was contributed to AFL-CIO BIT (with $1 million take each from Sky Harbor and cash). Following the third quarter, in October, an additional $375,000 was called by TA Realty Fund X. Mr. Jaung reported that ULLICO's latest valuation declined by approximately 25%.

Emerging Markets Review

Mr. Jaung opened this section by acknowledging that the emerging markets, both equity and bonds, have significantly detracted from the Pension Plan's recentreturns. This section will show the Trustees the current state of emerging markets and Meketa's forward looking view. He began by stating that the emerging markets have higher returns since the inception of the Morgan Stanley benchmarks in 1988, albeit with higher volatility. Returns in the emerging markets in 2013 represent the largest drawdown relative to the U.S. and developed markets since 1988. He also said that the correlations of all asset classes rose significantly during Q2, but we have seen a more normalization of correlations during Q3 and Q4.

Mr. Jaung highlighted the equity valuation comparisons between emerging markets and the U.S. He reviewed the most commonly used valuation metrics, and noted that they all currently favor the emerging markets. Based on these valuation metrics, emerging markets appear to be cheaper than developed markets. The historical perspective from the current valuation metrics and the subsequent 5-year returns favor the emerging markets. Historically, from today's P/E levels, emerging markets subsequent 5-year return has been significantly higher than U.S. markets: 13.6% vs. 4.2%.

The current P/B ratios also favor the emerging markets. The emerging markets' current P/B ratio is lower than the historical mean level. From these levels emerging markets have typically rallied significantly. He finished this section by revisiting the recent underperformance of emerging markets in its historical context. He reiterated that the 2013 return was one of the worst periods in the short history of emerging markets. The two charts he reviewed gave a historical context as to how the emerging markets behaved after such sharp draw downs. Again, the history shows that emerging markets tend to rebound significantly relative to U.S. and other developed markets after such large underperformances.

In conclusion, Mr. Jaung stated that Meketa is still bullish on the emerging markets, especially after such a large draw down. The growth in emerging markets is expected to be much stronger than the developed markets and the demographics certainly favor emerging markets as well. The thesis for investments here is still valid.

Introduction to Direct Lending

This section is intended to highlight a new type of fixed income investment for the Pension Plan. Mr. Jaung began by highlighting how much gains the public bond markets have seen since 2009. In many ways, the public credit markets are fully valued with the absolute and relative yield to Treasuries (yield premiums relative to Treasuries) near or below the long-term averages.

He began by describing direct lending as private loans made by investment managers, other institutional investors, and banks to small and medium sized corporations that may not have access to the capital markets (issuing bonds) and/or bank loans. This is due to the size of the company and size of the loans they are seeking. Large banks tend not to make small loans (under $50 million) as they are less profitable and the banks face new regulatory hurdles. He compared and contrasted investments in direct lending versus investments in public bank loans and high yield bonds. He noted thatinvesting in direct lending and bank loans is very similar, but direct lending investors will receive a return premium due to the small company size and trading illiquidity. He further noted that direct lending has nearly all of the same return components as bank loans and high yield, but that some direct lending managers will receive warrants or equity interest in the company in addition to the loan to enhance the overall investment return, and that underwriting fees are paid to the lender (and usually passed along to investors) because there is not a bank that is underwriting and syndicating, or re-selling, the loans. He said that direct lending returns are expected to be higher than bank loans and high yield. He explained the risks as follows: first, direct lending borrowers are generally not rated by the rating agencies, although their leverage ratios are generally lower than bank loan borrowers; second, there is no established secondary market for direct lending loans, so they are normally held until maturity, but the pre-set maturity date is generally shorter than bank loans and they pay quarterly interest.

Meketa has had clients invested in direct lending since 2010 and has met with the highest quality managers in the direct lending universe. Meketa intends to invest [what is the amount?] with White Oak Gloabal Advisors, which focus on making senior loans to middle market companies, to be funded from public high yield bonds. Mr. Jaung described the White Oak investment team, the investment strategy and process, investment performance, and strengths and weaknesses of White Oak. The preliminary documents have been sent to Zach Roberts at Seyfarth Shaw and the review process has begun.

Next Steps

Meketa is exploring the possibility of investing approximately $2.5 million in DRA, a value added real estate fund, , and expects to have an answer as to whether an investment may be madebefore the year is out.

Conclusion

Mr. Jaung concluded his comments by reviewing the overall asset allocation and his views on how the Plan is positioned. With 31% of assets in domestic equity, the Plan is at the upper end of the target range (15% to 35%). Meketa is comfortable with this allocation to domestic equity. The emerging markets investments are currently at or near their target. Mr. Jaung also stated that he is very comfortable with the investments in emerging markets.

This concluded Mr. Jaung's comments.

VIII. <u>CO-COUNSEL REPORT</u>

A. <u>Internal Revenue Service Ruling 2013-17</u>

Ms. Mayerson reported that on August 29, 2013, the U.S. Department of Treasury and the Internal Revenue Service issued Revenue Ruling 2013-17 announcing that the IRS will recognize "all legal same-sex marriages…for federal tax purposes." The IRS determined that a couple would be considered "married" for federal tax purposes if their marriage certificate was issued by a domestic or foreign jurisdiction having the legal authority to sanction marriages. Co-Counsel reported that no Plan amendments were necessary to comply with this ruling since the current Plan does not specifically define the term "spouse" to mean opposite-sex spouse only.

B. UNITE HERE Local 23

Ms. Mayerson reported that the Plan currently has a bargaining relationship with UNITE HERE Local 23 that allows them to continue to contribute to the Plan. She said a number of the Collective Bargaining Agreements for food services employers who participate in the Plan were previously transferred to UNITE HERE Local 23. Ms. Mayerson reported that the Trust Agreement will need to be amended to permit their continued participation in the Plan. She explained that these employers would be grandfathered to allow for their continued participation in the plan until such time that they can negotiate benefits elsewhere.

After considerable discussion, on Motion made and seconded, the Trustees approved the following resolution:

RESOLVED to permit employers that were previously required to contribute to the Fund under collective bargaining agreements with UNITE HERE Local 25 and are now required to contribute to the Fund under collective bargaining agreements with UNITE HERE Local 23 to continue to participate in the Fund, provided that they enter into a Participation Agreement acceptable to the Trustees as soon as administratively practicable.

Co-Counsel reported that were no further legal matters requiring Board action at this time.

IX. ADMINISTRATIVE MANAGER'S REPORT

A. Second Quarter 2013 Administrative Manager's Report

Ms. Sims presented and reviewed the Second Quarter 2013 Administrative Manager's Report, a copy of which is attached to and made a part of these minutes as Exhibit B.

B. Third Quarter 2013 Pension Benefit Applications

Ms. Sims presented and reviewed the Third Quarter 2013 Pension Benefit Application Report, a copy of which is attached to and made a part of these minutes as Exhibit C.

On Motion made and seconded, the Trustees voted approval of the following resolution:

> **RESOLVED that the Third Quarter 2013 pension benefit applications are approved for payment as reported.**

X. ACTUARY REPORT

Actuarial Valuation Report as of January 1, 2013

Mr. Woodrich distributed a report entitled "January 1, 2013 Actuarial Valuation," a copy of which is attached to and made a part of these minutes as Exhibit C. He reviewed the valuation in detail.

The Trustees thanked Mr. Woodrich for his report and he was excused for the balance of the meeting.

XI. OTHER FUND BUSINESS

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Request for Pension Credit Correction

Mr. Singerman explained that the Fund had received a request from Mr. Boardman for credit for service with Local 25 from 1992 through 1996, during which time he states he was mischaracterized as an independent contractor. Mr. Singerman reminded tat the Trustees that, at their last meeting, they had discussed the possibility of retaining an independent fiduciary to evaluate the claim and requested a recommendation from Counsel. He said that he and Ms. Mayerson had considered a number of potential Independent

Fiduciaries and recommend engaging Mr. Sherwin Kaplan, who is offering a discounted rate of $500 per hour. He briefly described Mr. Kaplan's background and qualifications. The Trustees requested that Mr. Sherwin provide the Trustees with a fee estimate for the project.

On Motion made and seconded, the Trustees voted approval of the following resolution:

> **RESOLVED to engage Mr. Sherwin Kaplan to decide this claim, subject to receipt of a fee estimation before undertaking substantial research.**

Mr. Boardman recused himself from this discussion.

XII. NEXT MEETING DATE AND LOCATION

The Trustees will schedule the next regular Board meeting at a later date.

XIII. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,
Solomon Keene
Secretary-Treasurer

AMS/drw
(Org. 12/15/13)

Attachments:
Exhibit A: Financial Statements for Years Ended December 31, 2012 and 2011
Exhibit B: Associated Administrators, LLC: Payroll Audit Collections Report dated December 6, 2013
Exhibit C: Associated Administrators, LLC: Third Quarter 2013 Administrative Manager's Report
Exhibit D: Associated Administrators, LLC: Fourth Quarter 2013 Pension Benefit Application Report