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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 MARCH 1, 2017
IN WASHINGTON, D.C.

The following Trustees were present:

UNION TRUSTEES	EMPLOYER TRUSTEES
John Boardman - Chairman	Solomon Keene
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
Fiona Liston - Cheiron, Inc.
Anne-Marie Sims - Associated Administrators, LLC
Coralie Milligan - Cheiron, Inc. (for part of the meeting)
Barbara Maiorano - Associated Administrators, LLC

I. CALL TO ORDER

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

II. MINUTES

Board Meeting, December 16, 2016

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 December 16, 2016 are approved.**

III. INVOICES

Ms. Sims presented a list of invoices dated March 1, 2017. 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 March 1, 2017 are approved for payment.**

IV. PAYROLL AUDIT REPORT

Payroll Audit Collections Report

Ms. Sims referred to the Payroll Audit Collections Report dated March 1, 2017 included in the meeting book. A copy of the report is attached to and made part of the minutes as Exhibit B. Ms. Sims reviewed the report which contains 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.

Ms. Sims reported that due to a scheduling conflict Ms. Odell was unable to attend this meeting but would attend the next scheduled meeting.

V. COLLECTION COUNSEL REPORT

Ms. Sims reported that there were no collection matters requiring Board action at this time.

VI. INVESTMENT CONSULTANT REPORT

Investment Consultant Report

The Trustees welcomed Mr. Jaung of Meketa Investment Group. Mr. Jaung outlined the agenda of the prepared presentation. The review will begin with the executive summary of the state of the Pension Fund, along with a discussion on some of the major changes within the public equity investments. Mr. Jaung stated that Meketa has added an attribution analysis that Mr. Singerman had asked for back in Q4 2016, which he will review. He will follow that up with the performance update through year-end 2016 for the total fund and the individual managers. Along the way, he will discuss the market events, including the Trump election impact.

Executive Summary

Mr. Jaung began by stating that the Pension Fund's assets at the end of 2016 was $187 million. This was an increase of approximately $24 million from year ending 2015, or 7.8% total return for the calendar year 2016. He went on to highlight that every asset class had positive returns and the Fund was led by natural resources and private equity which returned 31% and 30%, respectively. He also highlighted the very high returns the Fund saw in the emerging markets debt and high yield investments. They returned 15% and 14%, respectively. The pension Fund's return was detracted by investment grade bonds and TIPS, which returned 3% and 4%, respectively. The higher interest rates we experienced since the Trump election was damaging to the longer duration fixed income securities.

The Fund had a flat Q4 as we saw a continuation of the very positive returns from the U.S. equities, especially from the small cap stocks. This was offset by the poor returns from the investment grade bond market. The main reason for the small cap stocks' high return was the potential tax reform that would help smaller companies that derive most of their revenues from the domestic markets. The tax reform would benefit these smaller, domestically focused companies more than the large multi-national companies. The flip side of this small cap run was the rise in interest rates we saw in Q4. This had a very negative impact on the fixed income investments. Investment grade bonds returned approximately -3% during Q4 as we saw the Ten - Year Treasury yield increase significantly on the potential Trump reflationary policies, including the $1 trillion infrastructure spending program.

The Pension Fund's performance in 2016 placed it just above the median of the peer group at 49th percentile.

Pension Fund Q4 Attribution Analysis

Mr. Jaung begin this section by stating that the flat Q4 return of the Pension Fund underperformed the Target Policy Benchmark by 0.4%. The biggest detractor was the overweight the Fund had in the investment grade bonds as this asset class was most negatively impacted by the higher interest rates we saw during Q4 2016. The Pension Fund had underweight positions in the emerging markets, both equities and bonds which helped the overall performance. Again, the Trump election depressed the emerging markets as the concern over the weakening of the emerging markets currencies impacted the investors' appetite for anything emerging.

Mr. Boardman asked about the status of the ULLICO stock holdings, specifically the last valuation and the secondary market for the security. Mr. Jaung replied that

ULLICO stocks are valued annually only, typically early in the calendar year. The last valuation used was based on year end 2015 which was reported on February 2016, over 12 months ago. As far as the secondary market is concerned, there is no trading or a market for these securities at this point. Mr. Jaung will report back if there is news of potential buyers of the ULLICO stocks. ULLICO stock holdings have been a drag to the overall performance.

New Investments in the Public Equity Asset Class

Mr. Jaung began by stating that Meketa uses active managers only in cases where the opportunity for outperforming the passive strategies are significantly high. Meketa's research group has identified five such active global equity managers, and a gold focused manager for the Pension Fund. They are: Artisan Global Value, First Eagle Global Equity, GQG Partners Global Equity, Kopernick Global All Cap, and WCM Focused Global Growth. The gold focused fund is also managed by First Eagle.

He reviewed their investment styles to highlight their complementary natures. He also shared their historical correlations which showed the different return patterns they exhibited historically. He concluded this section by showing the historical composite returns of the new global equity managers compared to the MSCI World Equity Index. The composite of the 5 active managers showed significantly higher returns with less volatility than those of the index. Mr. Singerman asked if the team of Mr. Jaung and Mr. Spatrick would have made the same changes. Mr. Jaung replied by saying that MFM and Meketa's general consulting group share the same research and information. Regardless of MFM or the general consulting, the same changes would have been made.

This concluded the presentation.

VII. ACTUARY REPORT

A. Actuarial Consultants Presentation

The Trustees welcomed Ms. Fional Liston and Coralie Milligan from Cheiron, Inc. ("Cheiron") to the meeting. Ms. Liston distributed copies of the "Actuarial Consultant's Presentation" and she and Ms. Milligan reviewed it in detail. A copy of the report is attached to and made a part of these minutes as Exhibit B.

Ms. Liston reported that Annual Certification of Plan Status under Section 432(b) of the Internal Revenue Code is due to be filed by March 31, 2017. She reported that the Fund will be certified in the Olive Status for the 2017 Plan year due to special rules that allow certain endangered plans to be deemed "Safe" due to the funded ratio being above 80%. She explained that in order to qualify for these special rules the plan must be projected to become Green (Safe) after 10 years without making any Plan changes.

Ms. Liston said that an Annual Funding Notice will be required to be sent out to the bargaining parties, participants and the Pension Benefit Guaranty Corporations ("PBCG") by April 30, 2017.

B. 2017 Retainer Fees

Ms. Liston distributed a letter, dated February 28, 2017, which detailed Cheiron's proposed fees for the January 1, 2017 valuation and for work performed during the period of April 1, 2017 through March 31, 2018. Cheiron requested an increase in the annual retainer fee for 2017 from $51,340 ($12,835 per quarter) to $52,368 ($13,092 per quarter), and for non-retainer fees.

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

RESOLVED to approve Cheiron's fee increase to $52,368 for the January 1, 2017 valuation and for work performed during the period of April 1, 2017 through March 31, 2018.

A copy of the report is attached to and made a part of these minutes as Exhibit C.

C. <u>Proposed Experience Study</u>

Ms. Liston reported that at the last meeting the Trustee's discussed continuing using a 7% investment assumption. She explained that in addition to the investment return assumption, there are several actuarial assumptions that are used in performing the annual actuarial valuation for the Plan. Ms. Liston said that as a "best practice," assumptions should be reviewed every three to five years to compare how well the actual experience has conformed to the assumptions being used and to make changes where the actual experience has been materially different from what was predicted. She recommended to the Trustees that the assumptions for this plan should be reviewed at this time as they have not been studied since 2012 and explained that the study will include the review of both "economic" and "demographic" assumptions.

Ms. Liston reviewed the proposed fixed fee of $15,000 which includes the analysis of the Plan's experience over the period 2011 to 2016, working with the asset class recommendations and returns provided by Meketa Investments to develop an interest rate assumption that can be considered a reasonable assumption under the Actuarial Standards of Practice, and making recommendations on other assumptions in accordance with Cheiron's findings and presenting a report to the Trustees with their recommendations.

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

> **RESOLVED to approve Cheiron undertaking an experience study of the Plan, for a fixed fee of $15,000.**

A copy of the report is attached to and made a part of these minutes as Exhibit D.

VIII. CO-COUNSEL REPORT

A. Counsel Rate Increase Request

Mr. Singerman noted that the most recent increase of the Co-Counsel hourly professional rate for attorneys to $350 was effective September 2013. He observed that the current rate has been in effect for over three years, and that it is well below the current average professional billing rate for the services of experienced Taft-Hartley benefit fund attorneys located in the metropolitan Washington, D.C. area. Mr. Singerman requested that the Trustees approve an increase of the Co-Counsel hourly professional rate for attorneys to $500 effective January 1, 2017.

Following discussion, the Trustees called for an Executive Session, and Mr. Singerman and Ms. Mayerson left the meeting room. At the conclusion of the Executive Session, Mr. Singerman and Ms. Mayerson were recalled to the room.

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

> **RESOLVED that, pursuant to the request of Seyfarth Shaw, LLP, and of Bredhoff & Kaiser, PLLC, the hourly rate, on which the services of the law firms as Fund Co-Counsel are based, are increased from $425 for attorneys to $500 for attorneys, effective January 1, 2017.**

B. Request for Waiver of Conflict of Interest.

Mr. Singerman presented document titled "Request for Waiver of Conflict of Interest" for Trustee consideration. He explained the Seyfarth Shaw, LLP is co-counsel for the Board of Trustees of the Funds, but also represents the Hotel Association of Washington, D.C. as well as a number of other employers who participate in the Funds. Mr. Singerman noted that one of the participating employers the Firm represents is the Harbaugh Washington Corporation, which manages the Washington Court Hotel. He said that Harbaugh has requested that Seyfarth Shaw represent it with respect to the Funds' audit of the Employer's contributions to the Funds, and Mr. Singerman is requesting that the Funds waive the conflict of interest in order to permit the Firm to undertake this representation. Mr. Singerman concluded that he will not advise Harbaugh with respect to the Audit matter and requests that the Fund waive any such conflict of interest in order to permit him to provide advice and counsel to the Trustees, including in connection with legal and policy issues identified as a result of the Harbaugh audit.

Following discussion, on Motion made and seconded, the Trustees unanimously voted approval of the following resolution:

RESOLVED to approve Seyfarth Shaw's request for Waiver of Conflict of Interest, dated February 28, 2017

C. Pension Benefit Increase – Deferred Vested Plan Amendment

Co-Counsel discussed the recent benefit modifications effective January 1, 2017 and protecting the Plan against deferred vested participants who would not be eligible for the pension benefit increase effective 1/1/17 from returning to work for a minimum period of time and therefore being eligible for the increase at that time. Counsel recommended that the Trustee's consider adopting a minimum work requirement for the deferred vested participants of 1,000 hour per year, in order to be eligible for the new pension benefit accrual rate, and that only future accruals be eligible to be calculated at the new accrual rate of $41.00.

Following discussion, on Motion made and seconded, the Trustees unanimously voted approval of the following resolution:

RESOLVED to adopt the changes to the Plan for deferred vested participants, effective January 1, 2017, as detailed above.

IX. ADMINISTRATIVE MANAGER'S REPORT

A. Fourth Quarter 2016 Administrative Manager's Report

Ms. Sims presented and reviewed the Fourth Quarter 2016 Administrative Manager's Report, a copy of which is attached to and made a part of these minutes as Exhibit D.

B. First Quarter 2017 Pension Benefit Applications

Ms. Sims presented and reviewed the First Quarter 2017 Pension Benefit Application Report, a copy of which is attached to and made a part of these minutes as Exhibit E.

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

RESOLVED that the First Quarter 2017 pension benefit applications are approved for payment as presented.

XI. NEXT MEETING DATE AND LOCATION

The Trustees scheduled the next regular Board meeting for Friday, June 23, 2017 commencing at 9:00 a.m.

XII. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,

Solomon Keene
Secretary-Treasurer

AMS/bm

(Org. 03-01-17)

Attachments:
Exhibit A: Payroll Audit Collections Report: Dated March 1, 2017
Exhibit B: Cheiron, Inc. Actuarial Consultants Presentation
Exhibit C: Cheiron, Inc. 2017 Retainer Fees
Exhibit D: Cheiron, Inc., Proposed Experience Study proposal
Exhibit E: Associated Administrators, LLC – Fourth Quarter 2016
Exhibit F: Pension Benefit Applications Report – First Quarter 2016