UNITE HERE Local 25 and Hotel Association of Washington, D.C.
Pension Plan
911 Ridgebrook Road
Sparks, Maryland 21152-9451
Telephone: (410) 683-6500
(800) 638-2972
www.associated-admin.com

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 APRIL 30, 2014
IN WASHINGTON, D.C.

The following Trustees were present:

UNION TRUSTEES	EMPLOYER TRUSTEES
John Boardman - Chairman	Steve Smith
Stephanie Steer	Joel Manion
Linda Martin	

Also present were:

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

I. CALL TO ORDER

Mr. Steve Smith and Mr. Joel Manion confirmed that Employer Trustee Keene had given them his proxy for all matters to come before the Trustees during this meeting. A quorum being present, Chairman Boardman called the meeting to order.

II. MINUTES

A. Board Meeting, December 10, 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 December 10, 2013 are approved.**

B. Finance and Collections Committee Meeting, January 1, 2014

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 Finance and Collections Committee meeting held January 1, 2014 are approved.**

III. INVOICES

Ms. Sims presented a list of invoices dated April 30, 2014. 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 April 30, 2014 are approved for payment.**

IV. PAYROLL AUDIT COLLECTIONS REPORT

Ms. Sims referred to the Payroll Audit Collections Report dated March 13, 2014 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.

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

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

VI. <u>INVESTMENT CONSULTANT REPORT</u>

Investment Consultant Report

The Trustees welcomed Mr. Jaung from Meketa Investment Group.

Introduction

Mr. Jaung began by highlighting the rate of returns of various asset class benchmarks during 2013. He stated that the best place to be was domestic equities. This was on top of a great 2012 for US equities. Mr. Jaung said that the US equity markets still seem to be the "fairest of them all" with the US GDP growth expectation among the strongest in the developed markets and US corporate earnings expectation still strong. The returns of the US equity markets were in excess of 30%, followed by developed international equity with returns in excess of 20%. These high returns also came with very low volatility levels.

Mr. Jaung explained that at the opposite end of the spectrum were emerging markets, commodity-related investments, and high grade bonds. He said the Fed "tapering" discussion that first began in May 2013 hit these asset classes very hard. This impact lasted throughout the year and caused emerging markets equity and bonds to have significant negative returns. Commodities and natural resources with the direct correlation to emerging markets also lost significant ground. Bonds were negatively affected by the rising interest rate caused by the tapering, and Treasury Inflation Protected Securities ("TIPS") were hit by both higher interest rates and decreasing inflation expectation. Mr. Jaung provided an update to the performances of these asset classes by highlighting that most of them have had strong returns through year to date ending First Quarter 2014. TIPS recovered and have returned 2%, emerging markets debt returned 2.9% and natural resources returned 1.5%. In aggregate, the Pension Fund had returns over 2% in First Quarter 2014.

Executive Summary

Mr. Jaung discussed the Fund return for 2013. He began by stating the returns were disappointing. The Fund had significant weight in the aforementioned asset classes that had negative returns. The total weight in emerging markets, TIPS, natural resources and investment grade bonds totaled approximately 38%. Although this was underweight to the target allocation by 5%, the significance was detrimental to the Fund's return. On the positive side, the Fund was overweight to US equities by 7%, although this could not overcome the allocations to the negative performers. At the end of December 31, 2013 the Fund was valued at $139.6 million, an increase of $18.2 million from 2012 year-end. The total return for 2013 was 10.3%. Mr. Jaung reported that this is a good absolute number, but below peer median (Taft-Hartley plans with less than $500 million). Since inception of Meketa's tenure, the Fund slightly trails both the Policy and Target Benchmarks. Ms. Mayerson asked why the Fund underperformed the Target Benchmark. Mr. Jaung responded that the managers in the emerging markets space had underperformed their respective benchmarks.

Manager Specific Issues

Mr. Jaung followed up with a discussion on Vontobel and Stone Harbor, emerging markets equity and bond managers. He outlined Vontobel's main investment thesis, the growth of their middle class in emerging markets. He also added that this is in line with Meketa's thesis for emerging markets. It was this thesis and stock specific issues with consumer related exposure that hurt Vontobel in 2013. The consensus was that the growth in emerging markets was going to slow significantly, thereby slowing consumer spending. Holdings such as Chinese internet companies and Indian consumer companies were negatively impacted by this changing sentiment. He also reiterated that the thesis of growing middle class in emerging markets is still very much Meketa's view and Meketa remains comfortable with Vontobel.

Mr. Jaung discussed the Stone Harbor Emerging Markets Debt portfolios. He began the discussion by highlighting some of the macro views that Stone Harbor had during the early part of 2013.

(1) Believed that emerging currencies were attractively priced,
(2) Believed emerging markets as a group would grow by roughly 6%, and China specifically would grow at around 8%,
(3) Believed peripheral European currencies would depreciate and Latin American currencies would appreciate, and
(4) Believed the long end of the yield curve was more attractive than the shorter end in several Latin American countries.

Most of the macro views turned out to be off and the positions that Stone Harbor had turned in poor results. Mr. Jaung was asked if Meketa still had confidence in Stone Harbor after such a poor year. Mr. Jaung replied that he did. He explained that active managers, especially in emerging markets, have to have certain macro views and the views they held did not work in 2013 but are similar to Meketa's long-term views for the asset class.

Peer Group Analysis

Mr. Jaung began this section by describing the peer group universe. It is composed of roughly 300 Taft-Hartley pension plans with assets less than $500 million. It was noted that the Fund's returns placed in 67th percentile, 63rd percentile and 57th percentile for the previous 12 months, 3 years and 5 years respectively. He continued the discussion by highlighting the significant asset allocation differences between the Fund and the average peer group allocations. The Fund is overweight to emerging markets by approximately 10% vs. the peer, 8% overweight to TIPS compared to the peer group, and approximately 4% overweight in natural resources group compared to the peer group. In aggregate, these asset classes were down 6% in 2013. He stated that it was the differences in the asset allocation that caused the Fund to underperform the peer average.

Conclusion

Mr. Jaung concluded his comments by restating that 2013 was not a great year, on a relative basis, for the Fund. Meketa believes that emerging markets is necessary for the long-term growth of the Fund and that TIPS and natural resources are positioned for the potential higher than expected inflation. The current asset allocation is appropriate to hit the long-term return needs of the Fund.

This concluded Mr. Jaung's comments.

VII. CO-COUNSEL REPORT

A. Internal Revenue Service ("IRS") Payments Commencing after Normal Retirement Age

Mr. Singerman reported that he had a discussion with a representative from the IRS regarding the open issue of the audit of the Fund for the 2005 Plan year. He reminded the Trustees that the IRS had found that participants who continue working after normal retirement age (generally age 65) but did not commence their benefits until they actually retired were not routinely being provided with either a notice of suspension of benefits or an actuarial increase to the benefit provided at retirement, as required by IRS rules. The Fund corrected this prospectively when the error was discovered and made make-up payments to participants who began to receive a pension on or after January 1, 2004. The IRS had not yet decided whether it will require the Fund make correction for periods before 2004 and has submitted the issue to its national office for a "technical advice memorandum." Mr. Singerman that the representative said that the IRS would waive the requirement for a correction and that the audit would be closed. Because this remains an open issue for now, the IRS requested consent to extend the statute of limitation period allowed by law for assessing additional tax on the Fund's federal tax return for the period ended December 31, 2005 until October 12, 2014. Co-Counsel recommended that the Trustees not agree to the extension request from the IRS at this time, but rather authorize co-counsel to agree to the extension if the IRS presses the issue. The Trustees agreed with this recommendation. Mr. Singerman will keep the Trustees informed on any developments.

B. UNITE HERE Local 23

Ms. Mayerson reported that per Trustee directive at the December 10, 2013 Board of Trustees meeting, Co-Counsel had prepared a Participation Agreement, for use by 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. Mr. Boardman said that he was working with Local 23 to obtain executed participation agreements.

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

VIII. ADMINISTRATIVE MANAGER'S REPORT

A. Third Quarter 2013 Administrative Manager's Report

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

B. Fourth Quarter 2013 Pension Benefit Applications

Ms. Sims presented and reviewed the Fourth 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 Fourth Quarter 2013 pension benefit applications are approved for payment as presented.**

IX. ACTUARY REPORT

A. Actuarial Certification

Ms. Fiona Liston of Cheiron, Inc. ("Cheiron") distributed copies of the "Annual Certification of Plan Status under Section 432(b) of the Internal Revenue Code, Update" and reviewed it in detail. A copy of the report is attached to and made a part of these minutes as Exhibit D. She reported that the Fund was certified in the Yellow Zone ("Endangered status") for the 2014 Plan year, due to the funded ratio being less that 80%. She explained that the Trustees will need to adopt a Funding Improvement Plan ("FIP") by November 26, 2014, but noted that the current bargained contributions and Plan provisions are projected to meet the criteria of a valid FIP. Ms. Liston stated that the bargaining parties would need to be notified of the FIP by December 26, 2014.

X. OTHER FUND BUSINESS

A. Calibre Payroll Audit Fee Increase Request

Ms. Sims distributed copies of a letter dated January 15, 2014 from Calibre CPA Group ("Calibre") requesting an increase in fees for 2014, 2015 and 2016. She reported that Calibre was proposing an incremental 2% increase in fees effective January 1, 2014 to take place for the following three years. A copy of the subject letter is attached to and made a part of these minutes as Exhibit E.

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

RESOLVED to approve, Calibre's fee increase request for the period 2014-2016.

B. Fund Auditor Engagement Letter – 2013 Plan Year

Ms. Sims reported that copies of the proposed audit engagement letter for the 2013 Plan Year from Mr. Tyler Geiman of Novak|Francella, LLC ("Novak") had been circulated prior to the meeting. A copy of subject letter is attached to and made a part of these minutes as Exhibit F.

The Trustees noted that the requested increase to $16,250 for the Plan Year 2013 represented an increase of $750 (4.8%) from the prior year and was not in excess of Consumer Price Index ("CPI") increase.

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

> **RESOLVED to approve the renewal of the agreement with Novak|Francella, LLC, with the requested fee increase to a maximum of $16,500 for the audit and related work of the 2013 Plan Year.**

C. Annual Funding Notice

Ms. Sims reported that, as required by law, the Annual Funding Notice was mailed to participants, the Department of Labor, Local 25, and the Pension Benefit Guaranty Corporation by the April 30, 2014 deadline.

D. Embassy Row Application for Exemption from Withdrawal Liability

Ms. Mayerson reported that the Fund had recently received from AREP Embassy Row LLC, c/o Ark Real Estate Partners LP., an application for exemption from withdrawal liability using the Fund's form that provides for an exemption from withdrawal liability in the case of asset sales that meet the requirements of Section 4204 of ERISA ("4204 application"). She said the application had been reviewed by Bredhoff & Kaiser, PLLC and found to be acceptable and that the Finance and Collections Committee had approved the Application for Exemption from Withdrawal Liability received from AREP Embassy Row LLC, subject to this action being ratified by the Board of Trustees.

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

> **RESOLVED to ratify the action taken by the Finance and Collection Committee to approve the 4204 application received from AREP Embassy Row LLC.**

Ms. Mayerson suggested that, to expedite the approval of 4204 applications, the Board consider delegating to the Committee the authority to approve future 4204 applications

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

> **RESOLVED to delegate to the Finance and Collections Committee the authority to approve future 4204 applications.**

XI. <u>NEXT MEETING DATE AND LOCATION</u>

The Trustees scheduled the next regular Board meeting for Thursday July 24th, 2014.

XII. <u>ADJOURNMENT</u>

There being no further business, the meeting was adjourned.

Respectfully submitted,
Solomon Keene
Secretary-Treasurer

AMS/drw
(Org. 05-02-14)

Attachments:
Exhibit A: Associated Administrators, LLC: Payroll Audit Collections Report dated March 13, 2014
Exhibit B: Associated Administrators, LLC: Third Quarter 2013 Administrative Manager's Report
Exhibit C: Associated Administrators, LLC: Fourth Quarter 2013 Pension Benefit Application Report
Exhibit D: Cheiron: Actuarial Certification
Exhibit E: Calibre's Fee Increase Request
Exhibit F: Fund Auditor Engagement Letter – 2013 Plan Year.