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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 JUNE 28, 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
Brian Dana (via tele-conference for part of the meeting)
Kevin Woodrich - Cheiron, Inc. (for part of the meeting)
Anne-Marie Sims - Associated Administrators, LLC
Coralie Milligan - Cheiron, Inc. (for part of the meeting)

I. CALL TO ORDER

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

II. MINUTES

Board Meeting, March 1, 2017

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 March 1, 2017 are approved.

III. INVOICES

Ms. Sims presented a list of invoices dated June 28, 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 June 28, 2017 are approved for payment.

IV. PAYROLL AUDIT REPORT

A. Payroll Audit Collections Report

Ms. Sims referred to the Payroll Audit Collections Report dated June 26, 2017 included in the meeting book. A copy of the report is attached to and made part of the minutes as Exhibit A. Ms. Sims reviewed the report which contains the results for 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.

B. Payroll Audit – approval of employers

Ms. Sims reported that Ms. Odell of Calibre CPA had provided copies of the proposed list of employers to be audited in 2017 for Trustee approval. She explained that all employers are now on a three-year cycle for payroll audits. The Trustees approved the proposed list as presented, except that Quantum and Charlie Palmer should be removed.

C. Fee Increase Request

Ms. Sims distributed copies of a letter dated June 23, 2017 from Calibre requesting an increase in fees for 2017. She reported that Calibre was proposing a 1.5% increase in fees effective January 1, 2017 through 2019.

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

> **RESOLVED to approve Calibre's proposed fee increase of 1.5% effective January 1, 2017 through 2019.**

V. COLLECTION COUNSEL REPORT

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

VI. CO-COUNSEL REPORT

a. Shared Expenses Allocation

The Trustees discussed the way in which shared expenses are allocated among the funds and asked Co-Counsel to prepare a recommendation regarding allocation of expenses for presentation to a subcommittee consisting of John Boardman and Solomon Keene.

b. Pension Benefit Increase – Deferred Vested Plan Amendment

Co-Counsel distributed a copy of the Plan amendment that details the recent benefit modifications effective January 1, 2017 and the adoption of a minimum work requirement of 1,000 hours eligibility year for deferred vested participants who return to work to be eligible for the new pension benefit accrual rate on past accruals. .

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

> **RESOLVED to approve the amendment, contingent on the ratification of all the participating employers' Collective Bargaining Agreements.**

c. Summary Plan Description Update

Co-Counsel reminded the Trustees that the Summary Plan Description ("SPD") was last revised in 2011, and is therefore due to be revised again under the regulatory provision that requires it to be updated every five years.

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

> **RESOLVED that Co-Counsel is authorized and directed to proceed with the update of the Summary Plan Description.**

Counsel advised that the benefit increase amendment would be reflected in the forthcoming SPD restatement, so it will not be necessary to send an SMM to active and deferred vested employees separately advising them of the benefit increase.

VII. INVESTMENT CONSULTANT REPORT

The Trustees welcomed Mr. Jaung and Mr. Dana of Meketa Investment Group, with Mr. Dana on a conference call line. Mr. Woodrich and Ms. Milligan also entered the meeting at this time. Mr. Jaung began with the agenda he and Mr. Dana had prepared.

Executive Summary

Mr. Jaung began by stating that the Pension Fund's assets at the end of May 2017 were $201.5 million. This was an increase of approximately $14.5 million from year ending 2016, or 5.2% total return for 2017 year to date through May. At the end of May, the Fund was well within the permissible asset allocation ranges in every asset class, and every asset class aggregate had positive returns. The two best performing asset classes were emerging markets equity and domestic equity with 17.3% and 8.6% returns, respectively.

Performance Review

For the twelve months ending May 2017, the Fund's investment return was 9.4%. Mr. Jaung discussed that, although this is a strong absolute number, it trailed the two benchmarks. The main reason for this underperformance was the overweight position the Fund held in the defensive high grade bonds. The Fund held 22% in this asset class, 8% above the target of 14% but within the permitted range of 8% to 25%. Mr. Dana stated that Meketa believes there are many unresolved issues that can cause a serious setback in the equity markets. They include the unresolved policies in the U.S., the question of Brexit, the health of the Chinese economy, and the future Federal Reserve policy. Historically, such long uninterrupted expansions result in a major setback. There is also an extremely low level of volatility. It appears that the markets have discounted all the factors outlined above. It is for these reasons that Meketa continues the Plan's overweight position in defensive high grade bonds.

Mr. Jaung stated that the Fund is "barbelled" with significant offensive assets to counter-balance the defensive high grade bonds. He pointed out that the Fund currently has over 50% of the assets in such offensive asset classes. The Plan has 41% in equities, 8% in emerging and high yield bonds, and 5% in natural resources. The Fund should be able to capture most of up market actions, but will have better downside protection if and when the equity markets have a downturn. Meketa believes that this is the prudent structure today, given all the uncertainties seen in the market.

The performance review concluded with Mr. Dana reviewing the Fund's return from Meketa's inception to May 2017. The Fund returned 8.1% *per annum* in that time period, a strong absolute number and significantly higher than the actuarial assumed return. The 8.1% trailed the two benchmarks by 0.5% in that time period.

This concluded the presentation.

VIII. <u>ACTUARY REPORT</u>

Mr. Woodrich and Ms. Milligan of Cheiron, Inc., distributed copies of their report entitled "Experience Study and the Preliminary January 1, 2017 Valuation Results" and reviewed it in detail. A copy of the report is attached to and made a part of these minutes as Exhibit B.

Mr. Woodrich provided an overview of the experience study and noted that this is a review of the key assumptions, performed by Cheiron every 4 to 5 years, to ensure that they remain reasonable. He explained that the Internal Revenue Code requires that assumptions be individually reasonable in regards to the following: (1) Economic -- investment return, inflation, and expenses, and (2) Demographic -- retirement, termination, disability, mortality, missing gender, and missing date of birth. Mr. Woodrich reported that, based on Meketa's expected rate of return, there is a 53% chance of the Plan having at least a 7.00% return over a 10-year period. Ms. Milligan then reviewed the demographic assumptions in detail.

Mr. Woodrich reviewed the changes to be made for the 2017 valuation, which included the following: (1) change the interest rate to 6.75%, (2) assume inflation at 2.35%, (3) maintain the assumption that returns are net of investment expenses, and (4) change the load on administrative expenses from 11% on normal plan cost to 13% (this increase was determined before taking into account the benefit increase. With the increase in multiplier, the normal cost increases, so that the appropriate rate will be 9.5%).

Ms. Milligan then reviewed the demographic assumptions in detail based on the results of the experience study. She stated that the new mortality rates would be set at 102% (107% for females) of the RP 2014 Blue Collar Combined Mortality table projected back to 2006 with generational mortality improvements using MP-2016 to 2017 and then 0.75% ultimate scale thereafter. Ms. Milligan also noted that the corresponding disability table (without load) would be utilized for disabled lives. Mr. Woodrich noted that all of the demographic changes move the Plan to a more conservative position.

The Trustees discussed the assumption relating to probability of receipt for terminated vested. Ms. Sims described the process that Associated uses to locate missing participants, including sending three letters annually to the last known address. In addition, Associated uses Accurint and works with the Social Security Administration to locate participants. The Trustees asked Ms. Sims to provide a copy of its procedures to Fund counsel for review.

IX. ADMINISTRATIVE MANAGER'S REPORT

A. First Quarter 2017 Administrative Manager's Report

Ms. Sims presented and reviewed the First Quarter 2017 Administrative Manager's Report, a copy of which is attached to and made a part of these minutes as Exhibit C.

B. Second Quarter 2017 Pension Benefit Applications

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

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

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

X. NEXT MEETING DATE AND LOCATION

The Trustees scheduled the next regular Board meeting for Tuesday, October 24, 2017 commencing at 9:00 a.m.

XI. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,

Solomon Keene
Secretary-Treasurer

AMS/bm

(Org. 06-28-17)

Attachments:
Exhibit A: Payroll Audit Collections Report: Dated June 26, 2017
Exhibit B: Cheiron, Inc. Actuarial Consultants Presentation
Exhibit C: Associated Administrators, LLC – First Quarter 2017
Exhibit D: Pension Benefit Applications Report – Second Quarter 2017