UNITE HERE Local 25 and Hotel Association of Washington, D.C.
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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 JULY 19, 2012
WASHINGTON, D.C.

The following Trustees were present:

UNION TRUSTEES	EMPLOYER TRUSTEES
John Boardman - Chairman	Solomon Keene - Secretary-Treasurer
Stephanie Steer	Joel Manion

Also present were:

Anne Mayerson - Bredhoff & Kaiser, PLLC
Jenifer Cromwell - Bredhoff & Kaiser, PLLC
Fredric Singerman - Seyfarth Shaw, LLP
Tyler Geiman - Novak | Francella, LLC.
Henry Jaung - Meketa Investment Group
Fiona Liston - Cheiron, Inc.
Ellen Odell - Calibre, LLC
Anne-Marie Sims - Associated Administrators, LLC
Alan Spatrick - Meketa Investment Group
Karen Walsh - Associated Administrators, LLC

I. CALL TO ORDER

Mr. John Boardman confirmed that Union Trustee Ms. Martin had given him her proxy votes for all matters to come before the Trustees during this meeting. A quorum being present, Chairman Boardman called the meeting to order.

II. MINUTES

Board Meeting, March 29, 2012

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 29, 2012 are approved.**

III. INVOICES

Ms. Sims presented a list of invoices dated July 19, 2012. 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 July 19, 2012 are approved for payment.**

IV. AUDITOR REPORT

Financial Statements for years ended December 31, 2011 and 2010

Mr. Geiman of Novak | Francella, LLC ("Novak"), distributed copies of the Financial Statements for years ended December 31, 2011 and 2010, a copy of which is attached to and made a part of these minutes as Exhibit A. He confirmed that the audit included an unqualified opinion of the financial statements of the Fund, and he presented the report in detail. Mr. Geiman reported that the Form 5500 and Financial Statements would be filed under extension.

V. PAYROLL AUDITOR REPORT

Ms. Ellen Odell of Calibre CPA Group, PLLC ("Calibre") distributed copies of the "Pension Fund Compliance Audit Program Status Report as of July 19, 2012," and reviewed the report in detail. A copy of the report is attached to and made a part of these minutes as Exhibit B.

Ms. Odell reported that Calibre recently completed the payroll audit of the Jefferson Hotel. A small underpayment was noted due to the Employer's failure to report the first pay periods after the Hotel re-opened. Additionally, she noted that the Employer is requesting credit on a large overpayment for the period March 2007 through December 2011 due to reporting incorrect pay type to the Fund. The Employer calculated the overpayment based on all payroll hours for the period, minus the hours that no contributions were due and minus reported hours for the entire audit period. This equaled the variance in hours that should not have been reported. Ms Odell reported that a net credit of $4,022.06 was requested and that Calibre agreed with their findings. After discussion, the Trustees referred this to the Finance and Collections Committee. Mr. Singerman requested that the issue be summarized in writing for the Committee.

Ms. Odell reported that the Madison Hotel was unwilling to send its original payroll records for the period January 1, 2009 through December 31, 2011 to Calibre's Washington, D.C. office and requested that the audit be performed in the New York office where the records are kept. She explained that a new management group took over the Madison Hotel on January 20, 2011. Ms. Odell said that in order for Calibre to conduct the audit in New York, additional audit fees of up to $1,000 would be incurred. Mr. Boardman requested that Co-Counsel review the Collection policy to determine if the Fund can require the Employer to pay for the additional payroll audit fees due to the extraordinary circumstances. After discussion, the Trustees directed that the period for the audit be changed to January 1, 2009 through December 31, 2010 to coordinate with the date of new management, and referred the issue to the Finance and Collections Committee.

Ms. Odell reported that the Woodner Hotel was also unwilling to send its original payroll records for the period January 1, 2003 through December 31, 2009 to Calibre's Washington, D.C. office and requested that the audit be performed in the New York office where the records are kept. Ms. Odell said that in order for Calibre to conduct the audit in New York, additional audit fees of up to $1,000 would be charged. Mr. Boardman stated that, due to the small number of Participants, he would contact the Woodner Hotel and request two to three years of records so that Calibre can extrapolate data. The Trustees said that if the Employer was unwilling to provide the data that Co-Counsel will determine if the Fund could require the Employer to pay for the additional payroll audit fees due to the extraordinary circumstances. After discussion, the Trustees referred this issue to the Finance and Collections Committee.

Ms. Odell reported that, in the course of the audit of Washington Marriott Wardman Park, the Employer advised Calibre that it pays contributions for steady and extra banquet waiters based on five hours per function, capped at 40 hours per week. The Trustees referred this issue to the Finance and Collections Committee.

Ms. Odell reported that, in the course of the audits of the Omni Shoreham, Hyatt Regency and Capitol Skyline Hotels, it was determined that these Employers were utilizing temporary agencies for "covered work" and the hours were not reported to the Fund. The Trustees referred this issue to the Finance and Collections Committee.

Ms. Odell was asked to ensure that, in the future, the list of active compliance audits shows all audits that have not been closed out, including open audits that have been referred to the Administrative Manager or Co-Counsel.

The Trustees thanked Ms. Odell for her presentation and she was excused from the balance of the meeting.

VI. PAYROLL AUDIT COLLECTIONS REPORT

Ms. Sims referred to the Payroll Audit Collections Report dated July 2, 2012 included in the meeting book. A copy of the report is attached to and made a part of the minutes as Exhibit C. 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.

VII. COLLECTION COUNSEL REPORT

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.

VIII. INVESTMENT CONSULTANT REPORT

The Trustees welcomed Mr. Alan Spatrick and Mr. Henry Jaung from Meketa Investment Group ("Meketa") to the meeting.

Mr. Spatrick began the discussion by reporting on the condition of the capital markets. He described slowing worldwide economic growth in the second quarter of 2012 and the new, troubling developments in the European Sovereign debt crisis. These two factors appeared to convince investors to reduce risk postures. For the first quarter, equities fell globally, with smaller losses of approximately 3% among large capitalization US equities, and larger losses of 8% to 9% among international equities. Mr. Spatrick then addressed the fixed income market, and said that interest rates for high grade bonds fell during the quarter, leading to price appreciation, with investment grade bonds returning 2% and TIPS returning 3%. Mr. Spatrick said that Meketa believes that the European sovereign debt crisis is likely the biggest obstacle to global growth and stability; on the positive side, prices of European equities are cheaper, relative to earnings, than they have been in many years. Further, he said that emerging market equities appear attractively priced, and that low equity prices are one of the most reliable predictors of good future equity returns. Finally, Mr. Spatrick addressed the importance of holding high quality bonds as "Depression Insurance," but that, given the very low current yields, this asset class will likely provide very low returns over the next decade.

Mr. Jaung highlighted the new investments for the Fund since the inception of the relationship in mid-2011, specifically: $5 million investment in Vanguard's TIPS Fund; $7 million in two emerging market equity managers evenly divided between DFA and Vontobel; and $7 million in two Stone Harbor Emerging Market Debt Funds, local and dollar denominated, with an overweight to the dollar denominated Fund. This has been a good position as the dollar strengthened relative to a basket of emerging market currencies. Mr. Jaung also noted that the tactical overweight to domestic large capitalization stocks benefitted the Fund as larger and more defensive stocks outperformed smaller and more aggressive stocks. These positions will be monitored closely and may be changed based on the outlook and valuations.

Mr. Jaung reported that Meketa is working with Co-Counsel to finalize the contracts for two additional investments: a domestic high yield portfolio and a natural resources equity index fund (State Street Global Advisors S&P Global Large/Mid Cap Natural Resources Index Fund (SSGA)). Meketa expects to invest approximately $5.5 million in each fund to reach the target asset allocation weights of 5%. The high-yield investment will be funded partly from cash ($2.5 million, leaving a $1.5 million cash balance) and partly from the Western Asset Core Plus Bond Fund (approximately $3 million). The natural resources investment will likely be funded from domestic equities.

Mr. Jaung reviewed the overall asset allocation of the Fund and the changes made since the inception of Meketa. The Fund's return year to date through June 2012 is 5.5%. The market value of the Fund at the end of second quarter was approximately $112 million. Mr. Jaung described the Fund's investments as follows:

- *Domestic Equity:* The Fund's capitalization structure is significantly overweight to large companies, which was beneficial to the Fund as large companies outperformed small and mid-sized companies by almost 8% over the past twelve months. Meketa may consider adding a high quality/defensive strategy to complement the two current index funds.
- *Developed Foreign Equity:* Both Artio and Manning & Napier have failed to keep up with the passive benchmark since inception. Meketa will continue to monitor the two funds and may consider replacing one or both with a low cost index fund.
- *Emerging Markets Equity:* The two emerging markets equity managers have very different styles and strategies and are very complementary. He is very comfortable with the current structure.
- *Investment Grade Bonds:* Two of the three funds, PIMCO and Western, share very similar strategies. Meketa has stronger conviction with PIMCO, so funds withdrawn from Western have been used to fund new investments. The AFL-CIO Housing Investment Trust has a unique approach to investment grade fixed income, targeting non-agency commercial and residential mortgage backed bonds. All three investment grade bond managers have outperformed their respective benchmark since inception.

- *TIPS:* Vanguard TIPS Fund was the first new investment made in December 2011 and performance has been solid since then.
- *Emerging Markets Debt:* The US dollar has strengthened relative to most emerging market currencies this year, typical during periods of upheaval as investors rush to safe havens. This benefitted the Fund's overweight to dollar-denominated emerging markets debt since initial investment into the asset class. This tactical overweight position will be closely monitored going forward.
- *Real Estate:* Meketa will be reviewing the two real estate funds (MEPT and AFL-CIO Housing Investment Trust) and may make a change to create a more complementary structure.

408(b)(2) DISCLOSURES

Ms. Sims reported that all covered service providers have provided the 408(b)(2) disclosures requested by the Fund, and reviewed the disclosures with the Trustees.

Mr. Spatrick noted that Meketa had reviewed the 408(b)(2) disclosures provided by the Fund's investment managers and custodian, and had concluded that all are charging reasonable fees.

IX. CO-COUNSEL REPORT

A. UNITED Bank – Positive Pay

Mr. Singerman reported that Seyfarth Shaw had reviewed the proposed contract with UNITED Bank to provide Positive Pay ("ACH") services to the Fund and that he had no legal concerns. He explained that positive pay helps to mitigate the risk of potential check fraud.

B. UNITED Bank – Direct Deposit

Mr. Singerman reported that he had reviewed the proposed contract with UNITED Bank to provide Automated Clearing House ("ACH") services to the Fund and that he had no legal concerns. He said this service would provide Participants with the option of electing to receive their monthly pension benefits via direct deposit.

X. ACTUARY REPORT

Ms. Liston distributed a report entitled “Experience Study,” a copy of which is attached and made a part of these minutes as Exhibit D. She explained that an experience study is a detailed review of the key assumptions performed every 4 to 5 years, to ensure that the Fund is being valued appropriately, in part because the Internal Revenue Code requires that the actuarial assumptions be individually reasonable. Ms. Liston provided an overview of the economic assumptions, including past experience of the Fund, historical data in general and the outlook for the future. She said that Meketa projected an annual return of 7.2% on the current allocation but anticipates a net return in the range of 7%. As a result, Cheiron is considering moving the projected annual rate of return from the current 7.5% assumption to 7.0% (net of investment expenses).

Ms. Liston then reviewed the administrative expense assumptions and reported that Cheiron is moving away from a level dollar assumption to a load of 15% on the Plan’s normal costs. The Trustees requested that Cheiron either use the inflation percentage, which is adjusted annually, or a moving three-year average expense cost. Ms. Liston summarized the total turnover experience of the Plan. The Trustees expressed concern that the report was overstating the total terminations in the Fund due to Participants being counted as terminated when they were laid off when hotels closed for renovations and then counted these same participants as re-hires when the hotels re-opened. Ms. Liston said she would research how the Participant terminations were handled for the purposes of this report.

Ms. Liston reviewed the current rate of mortality and explained that the current assumption utilizes the 1994 GAM, set forward one year for males and females who are considered to have healthy lives, and 1994 GAM set forward nine years for males and females who are considered to have disabled lives. She said the Actuarial Standard of Practice (“ASOP”) No. 35 was recently revised to require the actuary to identify both the underlying mortality as of valuation dates as well as provisions for future mortality improvement included in the assumption.

Ms. Liston described the following changes to the assumptions that Cheiron recommends that the Trustees consider: (1) Turnover: change to service-based only table, (2) Retirement: reflect behavior of more participants retiring after age 65, (3) Disability: cut current table in half, (4) Mortality: move to RP-2000 combined table with blue collar adjustments projected with scale AA to 2022, (5) Missing gender: assume Plan's population is 70% male, and (6) Missing dates of birth: base on benefit service and an assumed age of 35 at hire.

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

> **RESOLVED to adopt an administrative expense assumption of 15% of normal cost, and to adopt the new demographic assumptions recommended by Cheiron, effective immediately.**

The Trustees thanked Ms. Liston for her report and excused her for the balance of the meeting.

XI. ADMINISTRATIVE MANAGER REPORT

A. First Quarter 2012 Administrative Manager's Report

Ms. Sims presented and reviewed the first quarter 2012 Administrative Manager's Report, a copy of which is attached to and made a part of these minutes as Exhibit E.

B. First Quarter 2012 Pension Benefit Applications

Ms. Sims presented and reviewed the first quarter 2012 Pension Benefit Application Report, a copy of which is attached to and made a part of these minutes as Exhibit F.

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

> **RESOLVED that the first quarter 2012 pension benefit applications are approved for payment as reported.**

C. Second Quarter 2012 Pension Benefit Applications

Ms. Sims presented and reviewed the second quarter 2012 Pension Benefit Application Report, a copy of which is attached to and made a part of these minutes as Exhibit G.

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

> **RESOLVED that the second quarter 2012 pension benefit applications are approved for payment as reported.**

XII. NEXT MEETING DATE AND LOCATION

The Trustees scheduled the next regular Board meeting to be held October 18, 2012, at the offices of the UNITE HERE Local 25, commencing at approximately 12:30 p.m., immediately following the adjournment of the Health and Welfare Fund Board meeting.

XIII. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,
Solomon Keene
Secretary-Treasurer

AMS/klw
(Orig.07-22-12)

Attachments:
Exhibit A: Novak│Francella, LLC Financial Statements for years ended December 31, 2011 and 2010
Exhibit B: Calibre CPA Group, PLLC: Compliance Audit Program Status Report as of July 19, 2012
Exhibit C: Associated Administrators, LLC: Payroll Audit Collections Report as of July 2, 2012
Exhibit D: Cheiron, LLC: Actuarial Experience Study
Exhibit E: Associated Administrators, LLC: Administrative Manager Report, First Quarter 2012
Exhibit F: Associated Administrators, LLC: Pension Benefit Application, First Quarter 2012
Exhibit G: Associated Administrators, LLC: Pension Benefit Application, Second Quarter 2012