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 AUGUST 6, 2019
IN WASHINGTON, D.C.

The following Trustees were present:

UNION TRUSTEES	EMPLOYER TRUSTEES
John Boardman - Chairman	Solomon Keene
Linda Martin (for part of the meeting)	Charles Hill
Stephanie Steer (for part of the meeting)	

Also present were:

Anne Mayerson - Bredhoff & Kaiser, PLLC
Fredric Singerman - Seyfarth Shaw, LLP
Tyler Geiman - Novak|Francella, LLC
Marcella Pascal - Novak|Francella, LLC
Anne-Marie Sims - Associated Administrators, LLC
Alan Spatrick - Meketa Investment Group
Coralie Taylor – Cheiron, Inc.
Kevin Woodrich – Cheiron, Inc.

I. CALL TO ORDER

Mr. Boardman confirmed that he had obtained proxies from Linda Martin and Stephanie Steer. A quorum being present, Chairman Boardman called the meeting to order.

II. TRUSTEES

Mr. Keene reported that Trustee Walsh had retired and provided the Plan with notice of his resignation of Trusteeship, effective immediately.

III. MINUTES

Board Meeting, April 25, 2019

Ms. Sims reported 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 April 25, 2019 are approved.**

IV. INVOICES

Ms. Sims presented a list of invoices dated July 30, 2019. She 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 30, 2019 are approved for payment.**

V. AUDITOR REPORT

Financial Statements for years ended December 31, 2017 and 2018

Ms. Marcella Pascal of Novak | Francella, LLC ("Novak"), distributed copies of the Financial Statements for the years ended December 31, 2017 and 2018, a copy of which is attached to and made a part of these minutes as Exhibit A. She confirmed that the audit included an unmodified opinion of the financial statements of the Fund, and she presented the report in detail. Ms. Pascal reported that the Form 5500 and Financial Statements would be timely filed.

VI. PAYROLL AUDIT REPORT

Payroll Audit Collections Report

Ms. Sims referred to the Payroll Audit Collections Report dated July 30, 2019, 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 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.

Mr. Tyler Geiman provided an overview of the current status of the payroll audits that are being performed by Novak. He explained Novak was experiencing audit entry issues with Centerplate. With respect to the Centerplate audit, Mr. Boardman explained that it had left the Convention Center in March 2019 and he would attempt to obtain contact information from HERE International..

Mr. Geiman reported that the Hilton Washington Embassy Row Hotel has changed ownership to Aju Hotel DBA Dupont ERH Propco, LLC. ("Dupont"). Dupont advised they do not have the payroll records from the previous ownership yet had a response. He said Novak had reached out to the prior ownership to schedule the audit. Mr. Geiman stated that the Beacon Hotel had also changed ownership and Novak had reached out to the prior ownership to schedule the payroll audit. Mr. Boardman requested Novak to follow up with Stephanie Steer if information is not forthcoming

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

> **RESOLVED to approve modifying the payroll audit period timeframes for the Beacon (through February 28, 2018), and Centerplate (through March 31, 2019) to be closing audits.**

Mr. Geiman reported that Novak is scheduled to start payroll audit field work at the Capitol Skyline Hotel the week of August 19, 2019**.**

VII. COLLECTION COUNSEL REPORT

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

VIII. CO-COUNSEL REPORT

Liaison Capitol Hotel - Sale

Ms. Mayerson reported the Liaison Capitol Hotel had recently been sold and the owner and operator had changed. She explained that this sale was an asset sale and that, as a result, the seller may be exempt from withdrawal liability if certain requirements are met, including the requirement that the buyer provide the Plan with a bond for a period of 5 years beginning with the first plan year beginning after the sale of assets based upon the seller's required contributions for the year preceding the year of the sale (or, if greater, the seller's average annual contribution for the 3 years preceding the year of the sale). No bond is required if the bond amount is less than $250,000 or, if less, an amount equal to 2% of the average annual contributions for the 3 years preceding the year of the sale.

The Capitol Liaison's bond amount is just over 2% of the average annual contributions ((2.10% on a cash basis and 2.05 on an accrual basis). Capitol Liaison has asked if the Board would consider granting a variance notwithstanding that such a variance is unsupported by applicable statutory or regulatory authority.

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

RESOLVED to deny the requested bond variance.

IX. INVESTMENT CONSULTANT REPORT

The Trustees welcomed Alan Spatrick to the meeting. Mr. Spatrick addressed the second quarter market environment, noting that the U.S. economy continued to expand during the second quarter, though it remained vulnerable to declines caused by lower corporate spending, trade conflict, and general international economic weakness. He said that this concern was highlighted by the decline in interest rates. The 10-year U.S. Treasury yield declined from 2.4% to 2.0% during the second quarter.

Nonetheless, during the second quarter most asset classes rallied. The U.S. equity market gained 4.1%, while international developed equities were just behind, with a 3.7% gain, and emerging market equities had a smaller 0.6% return. Falling interest rates helped bonds keep up with stocks, as high-grade bonds gained 3.1% for the quarter, TIPS appreciated by 2.9%, and high yield bonds returned 2.5%.

Mr. Spatrick then addressed results from the capital markets in July and the first part of August. During the first week in August, U.S. and foreign equities were down between 3.4% and 6.2%, while investment grade bonds posted gains.

He said the Fund grew by $10.0 million during the second quarter, and that the gain was due to $2.1 million in positive cash flow and $7.9 million in investment gains.

He said that on June 30, the Fund overall had 54% of its assets in equities and 46% in bonds and cash. He noted that, compared to targets, the Fund was positioned deliberately in a lower risk posture, with high grade bonds above their target and equities, high yield bonds, and emerging market bonds all below their targets. He said that all asset classes were within their assigned allocation policy ranges.

Mr. Spatrick noted that the Fund appreciated 3.3% net of fees in the second quarter, ahead of both benchmarks, and said that the same was true over the past year with a net gain of 7.1%, compared to a 7.0% benchmark return. He said that during the past year, the Fund's best performing asset classes were emerging market bonds, equities, and real estate.

He next reviewed individual managers, saying that his firm reduced holdings in two equity strategies, Kopernik and First Eagle Gold, while adding to the Artisan Global portfolio and the First Eagle Global portfolio. During the past year, the Fund's global equities did well, gaining 8.6%, ahead of the 5.7% gain for the global equity index. He said that two global growth strategies, those of WCM and GQG, were responsible for most of the Fund's equity outperformance.

Next, Mr. Spatrick addressed fixed income, saying that investment grade bonds, which make up one quarter of the Fund, were mainly indexed. He said that the one active investment grade bond strategy, the AFL-CIO Housing Investment Trust, had reduced its expense ratio by six basis points over the past year and expected to reduce its expense ratio further.

He described a change in the Fund's position in emerging market bonds. In May, Meketa terminated Stone Harbor due to performance and concerns about risk controls, and replaced them with Payden and Rygel. Payden & Rygel got off to a good start, returning 4.3% in May and June. The high-yield manager Sky Harbor gained 6.1% over the past year.

Mr. Spatrick reported that over half of the Fund's real estate position was invested in the AFL-CIO Building Investment Trust. The Trust lagged its benchmark by approximately 1% over the past year.

Mr. Spatrick said that Meketa added a new private equity fund during the second quarter, Flagship Pioneering, which is a life sciences-focused venture capital fund. The group has been in business for twelve years and overall has produced a 35% compound internal rate of return. He said that Meketa committed $1 million to this fund on behalf of the Fund.

Finally, with respect to individual portfolios, he said that the Board of Ullico made an offer to buy up to $2.4 million of Ullico stock from shareholders, such as the Fund. Ullico offered a price of $18.88 per share, below the initial price when the Fund bought the stock in 1993, but well above the $12.73 level from five years ago. After speaking with Ullico's chief financial officer and reviewing the valuation, Meketa decided that the $18.88 price was reasonable, and that given the illiquidity of these shares, decided to tender the shares. On August 2, Ullico informed Meketa that it would purchase 2.2% of the Fund's shares for $32,454.

Next, he reviewed the Fund's performance relative to a universe of approximately 250 other Taft-Hartley funds with assets under $500 million. He said that the Fund did well, and its performance improved over the past year. The Fund's 7.1% gain was 140 basis points above mean and ranked in the top 15% of its peers. He said that over the past five years, by contrast, the Fund ranked in the 85th percentile.

Next, he reviewed the private market investments that the Fund holds. He said that Meketa had committed, on behalf of the Fund, $4.5 million in total to two private equity buyout funds, $8 million to three real estate funds, and $4 million to two venture capital funds. He presented estimated internal rates of return for all seven funds, noting that five funds had returns of between 11% and 22%; one fund had an estimated internal rate of return of 8.6%; and one does not yet have a return because it is a new investment. Mr. Spatrick agreed that Meketa would provide private market returns data versus peers.

X. ACTUARY REPORT

A. 2019 Preliminary Actuarial Valuation Results

Mr. Woodrich and Ms. Taylor of Cheiron, Inc. distributed copies of their report titled "2019 Preliminary Actuarial Valuation Results" and reviewed it in detail. A copy of the report is attached to and made a part of these minutes as Exhibit C.

B. 2019 Retainer Fees

Ms. Sims distributed a March 21, 2019 letter from Cheiron requesting an increase in the annual fee for its retainer services from $53,520 to $54,752 and proposing hourly billing rates for non-retainer work for the period April 1, 2019 through March 31, 2020. A copy of the request is attached to and made a part of these minutes as Exhibit D.

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

> **RESOLVED to approve the increase in the annual fee to Cheiron for retainer services to $54,752 and to approve the proposed hourly rates for non-retainer services for the period of April 1, 2019 through March 31, 2020.**

XI. ADMINISTRATIVE MANAGER'S REPORT

A. First Quarter 2019 Administrative Manager's Report

Ms. Sims presented and reviewed the First Quarter 2019 Administrative Manager's Report, a copy of which is attached to and made a part of these minutes as Exhibit E.

B. First Quarter 2019 Pension Benefit Applications

Ms. Sims presented and reviewed the First Quarter 2019 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 2019 Pension Benefit Applications are approved for payment as presented.**

XII. OTHER FUND BUSINES

Fidelity Bond Application

In reviewing the fiduciary insurance coverage renewal for the Fund, Ms. Mayerson requested that the independent fiduciary coverage for Mr. Frank Cummings be removed from the policy as that matter has been completed. Ms. Sims reported that she will look into social engineering coverage and report back to the Board at a subsequent meeting."

XIII. NEXT MEETING DATE AND LOCATION

The Trustees scheduled the next regular Board meeting for Wednesday, November 20, 2019, commencing at 10:00 a.m.

XIV. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,

Solomon Keene
Secretary-Treasurer

AMS/bm

(Org. 08-06-19)

Attachments:
Exhibit A: Novak|Francella Financial Statements for years ended December 31, 2017 and 2018
Exhibit B: Payroll Audit Collections Report, as of July 30, 2019
Exhibit C: Cheiron: 2019 Preliminary Actuarial Valuation Results
Exhibit D: Cheiron: 2019 Retainer Fees
Exhibit E: Associated Administrators, LLC-Administrative Managers Report-First Quarter 2019
Exhibit F: Pension Benefit Applications Report – First Quarter 2019