UNITE HERE LOCAL 25 AND HOTEL ASSOCIATION OF WASHINGTON, D.C.

PENSION FUND

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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 29, 2012
WASHINGTON, D.C.

The following Trustees were present:

UNION TRUSTEES	EMPLOYER TRUSTEES
John Boardman - Chairman	Solomon Keene - Secretary-Treasurer
	Stuart Damon
	Joel Manion

Also present were:

Anne Mayerson - Bredhoff & Kaiser, PLLC
Fredric Singerman - Seyfarth Shaw, LLP
Henry Jaung - Meketa Investment Group
Fiona Liston - Cheiron, Inc.
Ellen Odell - Calibre, LLC
Justin Sergeant - Calibre, LLC.
Anne-Marie Sims - Associated Administrators, LLC
Alan Spatrick - Meketa Investment Group
Ryk Tierney - Associated Administrators, LLC

I. CALL TO ORDER

Mr. John Boardman confirmed that Union Trustees Ms. Steer and Ms. Martin had given him their 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. TRUSTEE WEBPORTAL

Ms. Sims provided an overview of the new Trustee Web Portal created by Associated Administrators, LLC. She explained that a secure portion of the Associated Administrators' website had been established to allow the Trustees to access meeting materials online in advance of scheduled meetings.

III. MINUTES

Board Meeting, December 16, 2011

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, 2011 are approved.**

IV. INVOICES

Ms. Sims presented a list of invoices dated March 29, 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 March 29, 2012 are approved for payment.**

V. PAYROLL AUDITOR REPORT

Ms. Ellen Odell and Mr. Justin Sergeant of Calibre CPA Group, PLLC ("Calibre") distributed copies of the "Pension Fund Compliance Audit Program Status Report as of March 21, 2012," and reviewed the report in detail. A copy of the report is attached to and made a part of these minutes as Exhibit A.

Ms. Odell reported that Calibre recently completed the payroll audit of the Omni-Shoreham Hotel. She reported that the employer failed to report new employees from the date of hire, failed to report the pay period ending April 30, 2008, and failed to report double-time hours. Ms. Odell further reported that the employer also failed to report on-call banquet employees over the five hour minimum per function. She stated that per the Trustees directive, due to the size of the employer, the large volume of records, and time needed to test on-call banquet employees, the findings were extrapolated based on sample testing.

Mr. Sergeant informed the Trustees that during the audit, Calibre determined that the Omni Shoreham Hotel and Hyatt Regency Hotel used temporary agencies for covered work (Penguin Staff and Temps of D.C.in the case of Omni Shoreham and Three G's Services in the case of the Hyatt Regency) for covered work and these hours were also not reported to the Fund. After discussion, the Trustees directed the Payroll Auditor to release the audit for both Employers with a notation that the temporary agency findings were under investigation. This issue of the use of temporary agencies was referred to the Finance and Collections Committee.

Ms. Odell distributed copies of the proposed list of employers to be audited in the first half of 2012 for Trustee approval. She explained that all employers would now be on a three-year cycle for payroll audits. The Trustees approved the proposed list as presented.

The Trustees thanked Ms. Odell and Mr. Sergeant for their presentation and excused them from the balance of the meeting.

VI. PAYROLL AUDIT COLLECTIONS REPORT

Ms. Sims referred to the Payroll Audit Collections Report dated March 27, 2012 included in the meeting book. A copy of the report is attached to and made a part of the minutes as Exhibit B. 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.

A. Meketa Activity Update

Mr. Jaung began by stating that Meketa has been active since the December 2011 meeting. Initially, most activities involved signatory authorization forms with the investment managers and PNC. Mr. Jaung thanked Ms. Sims for her assistance in implementing the transitions.

Mr. Jaung discussed the new investments and rebalancing activities since the last meeting. The activities focused on moving the Fund closer to the strategic asset allocation targets approved by the Trustees.

The Fund invested $3.5 million in the Dimensional Fund Advisors (DFA) Emerging Markets Value Fund on March 6, 2012. To fund this investment, $3.5 million was redeemed from the Amalgamated LongView Large Cap 500 strategy. Mr. Jaung said that on April 1, 2012 the Fund will make an additional $3.5 million purchase in emerging markets equity via the Vontobel Emerging Markets Equity commingled pool. Funding for this investment will be from cash. The Fund's cash position was approximately $5.7 million as of March 15, 2012 and will be reduced to $2.2 million after this purchase. Mr. Jaung also stated that he had confirmed with Ms. Sims that the remaining cash balance is sufficient for cash disbursements for the next several months. The combined investment of $7 million represents approximately 7% of the Fund.

Mr. Singerman reported that Seyfarth Shaw had worked with Meketa to review and provide comments on the Fund's agreement with Vontobel, and that Vontobel had provided a side letter to the Fund to provide the Fund with further protections. He noted that Vontobel's agreement required Meketa to delegate authority to Vontobel, and that Meketa had some concerns about whether it could do so under its current agreement with the Fund. While Co-Counsel was comfortable that Meketa had such authority, at Meketa's request, Mr. Singerman requested that the Trustees confirm that

Meketa's current agreement permits it to delegate investment authority to an investment manager, and the Trustees confirmed that this is indeed within Meketa Investment Group's authority.

The Fund also invested $4.2 million in the Stone Harbor Emerging Markets Debt Fund (dollar-denominated) on March 1, 2012 and $2.8 million in Stone Harbor's Local Markets Debt Fund on March 1, 2012. Mr. Jaung noted that the investment in the emerging market debt is over-weighted in the dollar-denominated emerging markets debt due to the uncertainties in the global economies, which typically favor the reserve currency, the U.S. dollar. Funding for the investments of $7 million came from the Western Asset Management Core Plus Bond Fund.

B. <u>Aggregate Market Values and Asset Allocation</u>

The Fund's total market value was approximately $111.2 million at the end of February 2012, an increase of $7.3 million since December 2011.

After the Vontobel purchase on April 1, 2012, the Fund will be at the target asset allocation in both emerging market equity and bonds. The Fund will also be within the target allocation ranges for domestic equity and bonds.

Mr. Spatrick stated that, although the Fund currently has no dedicated high yield investments, both PIMCO and WAMCO portfolios have high yield exposure.

C. <u>Performance Review</u>

Mr. Jaung began the performance review section by stating that the equity markets have been very strong since the middle of the fourth quarter of 2011 and the Fund benefitted greatly. Year to date through February 2012, the Fund returned 5.8% which was driven mainly by the strong domestic equity return of 9.2% and the 14.0% foreign equity return.

The fixed income aggregate outperformed the benchmark (Barclays Aggregate Index) by 1.4% through February. Both PIMCO and WAMCO outperformed by overweighting credit and underweighting Treasuries and agencies.

Mr. Jaung stated that the real estate funds are valued on a quarterly basis. Therefore, the total Fund return does not reflect the likely positive returns of the real estate funds. He estimated, by using the REIT index, that the Fund's return may be approximately 50 basis points higher through February.

D. Capital Markets Overview

Mr. Jaung said that the markets had a tremendous run since the last Board meeting in December 2011, with the S&P 500 and the EAFE increasing by 16% and 15% respectively. He believes the main reason for the recent momentum was the European Central Bank's Long Term Refinancing Operation (LTRO). He said that the bond market is frequently a useful leading indicator for the equity markets. There was a large yield spread compression in the bond markets since the middle of the fourth quarter of 2011, with the biggest move coming from the European sovereign debt market. He identified various fixed income sectors to highlight the spread compressions.

He also stated that the U.S. has had a series of positive news on manufacturing, labor, and corporate profits, but pessimism regarding the Euro Zone was depressing the equity markets. The LTRO had at least a temporary effect of removing the fear of a near term demise of the Euro Zone.

Mr. Boardman asked if Meketa expects to see continued strong equity returns. Mr. Jaung replied that all the positive equity market moves since 2009 have come after a significant monetary stimulus, but they retreated after the stimulus ran its course. He sees LTRO as a global QE III, but there are already signs of this stimulus having run its course. He noted that the yields of Spanish and Italian bonds increased close to 50 basis points since the middle of February, which could be seen as an early indicator for market retreat.

E. Natural Resources

Mr. Spatrick discussed the Pension Fund's target 5% allocation to natural resources and described the benefit of a dedicated investment in natural resource companies. He explained that Meketa considers natural resources as products that have been extracted or harvested from the earth-- for example, oil, natural gas, copper, gold, timber, wheat, and soy.

Mr. Spatrick referred to page 77 of the presentation where the data tables show strong historical performance of energy stocks during periods of high inflation. Next, he stated several reasons why Meketa believes that there is a heightened risk of inflation to investors:

- Unprecedented worldwide monetary stimulus over the past several years
- Huge sovereign debts for numerous developed countries, making inflation an appealing course
- Growth of the middle classes in emerging markets, leading to a large increase in demand for natural resources

He concluded that the Fund will invest in a low cost State Street index fund that tracks the S&P Natural Resources index.

The Trustees thanked Mr. Jaung and Mr. Spatrick for their report and commended Meketa for their presentation.

IX. CO-COUNSEL REPORT

A. 408(b)(2) Final Regulations

Ms. Mayerson provided a summary of the final regulations issued by the U.S. Department of Labor under section 408(b)(2) of the Employee Retirement Income Security Act of 1974 ("ERISA") that will become effective July 1, 2012. The new regulations provide that contracts or arrangements between certain ERISA-covered plans, including this Plan, and their service providers will considered to be "reasonable" only if the service provider discloses specified information to the plan's fiduciary. If a contract is not reasonable, a service relationship between a plan and a service provider will constitute a "prohibited transaction" under ERISA and the Internal Revenue Code ("Code"). In essence, the regulation requires covered service providers to pension plans to give plan fiduciaries significant new disclosures about the services they, their affiliates, and their subcontractors are providing (and expect to provide) to the plans and the compensation these parties expect to receive in connection with the services. The regulation applies both to existing contracts and arrangements as well as to contracts entered into or renegotiated after July 1, 2012. This means that the Plan's fiduciaries must begin now, in advance of the July 1 effective date, the process of requesting and evaluating the new disclosures with respect to all existing covered service provider contracts. Ms. Mayerson is preparing draft letters to the Plan's service providers requesting confirmation that they will provide the required disclosures, and will provide them to Associated Administrators shortly.

B. <u>Agreement and Declaration of Trust – Amendment and Restatement</u>

Mr. Singerman reminded the Trustees that the Trust Agreements for the Health & Welfare and Legal Funds had been restated to incorporate various "best practices," but that restatement of the Trust Agreement for the Pension Fund had been deferred because the Trustees had previously been considering a merger of the Fund with the National Retirement Fund. Mr. Singerman distributed a proposed draft of the restated Agreement and Declaration of Trust, incorporating various changes previously adopted by the related funds. A copy of this Agreement is attached to and made part of these minutes as Exhibit C.

RESOLVED to approve the amended and restated Trust Agreement effective January 1, 1987, as presented.

Mr. Singerman stated that, although the restatement reflected the reduction in trustees to three Employer Trustees and three Union Trustees previously approved by the Trustees, Co-Counsel was also presenting an amendment to implement this change, because it became effective prior to approval of the restatement of the Trust Agreement. A copy of the Amendment is attached to and made part of these minutes as Exhibit D.

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

RESOLVED to approve the Amendment to the Trust Agreement amended and restated effective January 1, 1987, as presented.

The Chairman and Secretary executed the Amendment on behalf of the Board of Trustees.

D. <u>D.C. Office of Tax and Revenue (OTR) Federal Withholding Regulation</u>

Ms. Sims reported that the District of Columbia passed emergency legislation effective December 22, 2011, requiring payers of distributions from retirement plans to District residents, to withhold D.C. income tax at the highest D.C. income tax rate in effect at the time of distribution. She stated that, as of January 1, 2012, the highest rate was 8.95% according to OTR Tax Notice 2011-9 dated December 28, 2011. Subsequently, two bills were passed that reversed the original regulation and now only withholdings on lump sum distributions are required. Ms. Sims confirmed that participants residing in the District of Columbia have been notified of this new requirement.

X. ACTUARY REPORT

A. <u>Fee Increase Request</u>

Ms. Liston distributed a letter, dated January 20, 2012, which detailed Cheiron's proposed fees for the January 1, 2012 valuation and for work to be performed during the period April 1, 2012 through March 31, 2013. Cheiron is requesting an increase in the annual fee from $47,280 ($11,820 per quarter) to $48,940 ($12,235 per quarter), and for non-retainer fees, which represents a 3% increase.

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

> **RESOLVED to approve Cheiron's fee increase to $48,940, for the January 1, 2012 valuation and for work performed during the period April 1, 2012 through March 31, 2013.**

B. <u>Actuarial Assumption Study</u>

Ms. Liston distributed a letter dated March 29, 2012 following up on the Trustees' prior discussion of the continued use of the 7.5% investment assumption. She explained that, as best practice, investment return and actuarial assumptions used in performing the annual actuarial valuation for the Plan should be reviewed every four to five years. An assumption study compares how well actual experience has conformed to the assumptions being used, and may result in recommended changes where that actual experience has been materially different from what was predicted. Ms. Liston informed the Trustees that the assumptions used to value the Plan have not been reviewed since Cheiron was hired and recommended that the Trustees consider such as study. She explained that the proposed fee to perform the study would be $17,500 and would include a review of both “economic” assumptions (investment returns, administrative expenses and inflation), and “demographic” assumptions (affecting the members of the Plan individually, retirement, withdrawal, disability, and mortality rates) compared to the Plan’s experience over the period 2005 through 2011.

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

> **RESOLVED to approve Cheiron to perform the Actuarial Assumption study as detailed above for a fixed fee of $17,500.**

C. Actuarial Certification

Ms. Liston distributed copies of the “Actuarial Update” and reviewed it in detail. A copy of the report is attached to and made a part of these minutes as Exhibit E. She reported that the Fund was certified in the Green Zone, without a change in the rate of return, for the 2012 Plan year. Ms. Liston reported that a copy of the draft Annual Funding Notice would be distributed to the Trustees, Co-Counsel and the Administrative Manager, for review prior to the April 30, 2012 mailing deadline.

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

XI. OTHER FUND BUSINESS

A. UNITED Bank – Positive Pay

Ms. Sims reviewed a proposal contained in the meeting booklet from UNITED Bank to provide Positive Pay (“ACH”) services to the Fund. She explained that positive pay helps to mitigate the risk of potential check fraud by matching checks presented for payment against checks issued by the Fund. The Fund office would send a check file to the bank and any exception items would be reported to the Fund for a pay or return decision. By identifying and responding to exception items on a timely basis, the Fund minimizes the risk of loss due to fraudulent check activity.

Ms. Sims reported that the Fund had recently experienced a number of attempts to pass fraudulent checks through the bank. She said that the cost of the Positive Pay program, based on the Fund's estimated check volume, would be approximately $75 per account, per month, with a $100 implementation fee. Co-Counsel indicated that, in most fraud cases, under commercial banking laws, the bank is liable.

The Trustees discussed the UNITED Positive Pay program and, on Motion made and seconded, approved the following resolution:

> **RESOLVED to approve utilizing UNITED Bank to provide Positive Pay services for pension checks, subject to Co-Counsel review of the Agreement with UNITED Bank.**

B. <u>2011 PBGC Estimated Filing</u>

Ms. Sims reported that the estimated 2012 PBGC premium had been filed on time.

C. <u>Notice of Possible Claim by Chair</u>

Mr. Boardman informed the Board that he intends to submit a claim for recognition of his service with Local 25 from 1992 through 1996. He explained that, during that period, he and Mr. William Aragon (for whom a claim will also be made) were employed by and receiving income from Local 25, but contributions were not being paid to the Fund on their behalf because they were mischaracterized as independent contractors. The Trustees discussed the possibility of retaining an independent fiduciary to evaluate the claim.

XII. ADMINISTRATIVE MANAGER REPORT

A. <u>Fourth Quarter 2011 Administrative Manager's Report</u>

Ms. Sims presented and reviewed the fourth quarter 2011 Administrative Manager's Report, a copy of which is attached to and made a part of these minutes as Exhibit F.

B. <u>Fourth Quarter 2011 Pension Benefit Applications</u>

Ms. Sims presented and reviewed the fourth quarter 2011 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 fourth quarter 2011 pension benefit applications are approved for payment as reported.**

XIII. NEXT MEETING DATE AND LOCATION

The Trustees scheduled the next regular Board meeting to be held June 28, 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.

XIV. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,
Solomon Keene
Secretary-Treasurer

AMS
(Orig.3/29/12)

Attachments:
Exhibit A: Calibre CPA Group, PLLC: Compliance Audit Program Status Report as of March 21, 2012
Exhibit B: Associated Administrators, LLC: Payroll Audit Collections Report as of March 27, 2012
Exhibit C: Restated Agreement and Declaration of Trust
Exhibit D: Amendment to Pension Trust Agreement
Exhibit E: Cheiron, LLC: Actuarial Update
Exhibit F: Associated Administrators, LLC: Administrative Manager Report, Fourth Quarter 2011
Exhibit G: Associated Administrators, LLC: Pension Benefit Application, Fourth Quarter 2011