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 DECEMBER 16, 2011
WASHINGTON, D.C.

The following Trustees were present:

UNION TRUSTEES	EMPLOYER TRUSTEES
John Boardman - Chairman	Solomon Keene - Secretary-Treasurer
Stephanie Steer	Stuart Damon
Linda Martin	Joel Manion

Also present were:

Anne Mayerson - Bredhoff & Kaiser, PLLC
Fredric Singerman - Seyfarth Shaw, LLP
Tyler Geiman - Novak | Francella, LLC
Henry Jaung - Meketa Investment Group (for part of the meeting)
Ellen Ranzman - Katz and Ranzman, PC
Justin Sergeant - Calibre, LLC.
Alan Spatrick - Meketa Investment Group (for part of the meeting)
Ryk Tierney - Associated Administrators, LLC
Kevin Woodrich - Cheiron, Inc. (for part of the meeting)

I. CALL TO ORDER

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

II. TRUSTEES

Mr. John Boardman reported that, in accordance with Trustee action taken at the September 27, 2011 Board of Trustees meeting to reduce the number of Employer and

Union Trustees to three on each side, Ms. Stephanie Steer and Ms. Linda Martin would remain as Union Trustees on this Fund. Mr. Solomon Keene reported that Mr. Stuart Damon of the Marriot Wardman Hotel would remain as an Employer Trustee on this Fund and Mr. Joel Manion, of Washington Court Hotel, was appointed Trustee effective immediately.

Mr. Boardman and Mr. Keene directed the Administrative Manager to obtain resignation letters from the Trustees that had been replaced and send a letter thanking them for their service to the Fund.

III. <u>MINUTES</u>

<u>Board Meeting, September 27, 2011</u>

Mr. Tierney reported that he 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 September 27, 2011 are approved.**

IV. <u>INVOICES</u>

Mr. Tierney presented a list of invoices dated December 16, 2011. 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 December 16, 2011 are approved for payment.**

V. <u>AUDITOR REPORT</u>

Mr. Tyler Geiman of Novak | Francella, LLC ("Novak") reported that the amended 2009 Form 5500 and financial statements from Salter & Company, LLC, ("Salter"), and the Form 5500 for the 2010 Plan Year had been filed.

Mr. Geiman distributed copies of the audit Engagement Letter for the 2011 Plan year, which was reviewed by Co-Counsel, for Trustee signature. Mr. Boardman and Mr. Keene executed the engagement letter on behalf of the Board of Trustees.

Mr. Geiman presented a letter that he explained is required by Statement on Auditing Standards (SAS) No. 115. The SAS 115 letter identifies several deficiencies in the Administrative Manager's internal controls and notes that all deficiencies have been corrected. He noted that these deficiencies did not rise to the level that would require the audit opinion on the financial statements to be something other than an unqualified, "clean," opinion.

VI. 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 December 3, 2011, and reviewed the report in detail. A copy of the subject report is attached to and made a part of these minutes as Exhibit A.

Ms. Odell reported that Calibre recently completed the payroll audit on the Marriott Wardman Park, and determined that the employer treats all banquet functions as five hours worked and accordingly pays wages and benefit contributions on all banquet waiters, steadies and extras, based on five hours, with a 40 hour per week maximum. Mr. Singerman recused himself from this discussion as his firm represents the hotel. Ms. Odell said that Marriott Wardman Park does not have timesheets for banquet waiters, only sign in sheets that do not reflect hours worked. Mr. Boardman expressed concern that this could result in the Employer underpaying the Fund, as the collective bargaining agreement requires contributions to be paid on all hours worked, which could exceed five hour if multiple functions are worked in a single day, or works more than 40 hours in a week. After considerable discussion, the Trustees referred this issue to the Finance and Collections Committee.

The Trustees directed Calibre to ensure that the hotel General Manager and Director of Finance/Comptroller are invited to attend payroll audit exit interviews, so that any issues discovered in the audit are raised to levels of management outside the areas responsible for processing contributions to Fund. They also asked the Administrative Manager to confirm that any payroll audit finding correspondence sent to the hotel is also copied to the General Manager and Director of Finance/Comptroller.

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

VII. PAYROLL AUDIT COLLECTIONS REPORT

Mr. Tierney referred to the Payroll Audit Collections Report dated December 5, 2011 included in the meeting book. A copy of the report is attached to and made a part of the minutes as Exhibit B. Mr. Tierney 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.

VIII. COLLECTION COUNSEL REPORT

Ms. Ellen Ranzman of Katz & Ranzman, P.C. presented the Collection Counsel's Report. A copy of the report is attached to and made a part of the minutes as Exhibit C.

Ms. Ranzman reported that Collection Counsel had sent a demand letter to the Hilton Washington Embassy Row ("Hilton") for payment of delinquent contributions, in the amount of $14,564.85, found during the payroll audit covering the period January 1, 2009 through January 1, 2011. Mr. Singerman recused himself from this discussion as his firm represents the Hilton. Having received no response from the Hilton, Collection Counsel filed a suit in U.S. District Court seeking the delinquent contributions, attorney's fees, audit fee, liquidated damages and costs. Ms. Ranzman reported that after the suit was filed, a Settlement Agreement with the Hilton was executed on October 25, 2011 and upon receipt of payment, the lawsuit was dismissed.

The Trustees thanked Ms. Ranzman for her report and she was excused for the balance of the meeting.

IX. INVESTMENT CONSULTANT REPORT

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

Mr. Jaung began by outlining the agenda for the day. The items on the agenda were: (1) The overview of the 2011 capital markets, (2) performance reporting of the Fund and the underlying investments through October 2011, (3) updates of all activities Meketa has undertaken since the September Board meeting, including the searches for TIPS, emerging markets equity and emerging markets debt managers, and (4) discussion of further diversifying the Fund in 2012.

2011 Capital Markets Review

Mr. Jaung began by stating there was an inverse relationship between risk and return where the riskiest assets had the poorest returns and the most conservative asset classes had the best returns. He contrasted the returns of TIPS (+14%) and small capitalization emerging markets equities (-25%). He further highlighted the performance differences between cyclical sectors such as material (-14%), financials (-20%) and industrials (-7%) which vastly underperformed more defensive sectors such as healthcare (+5%), utilities (+9%) and staples (+9%). This was caused by investors doubting the global growth potential in the face of the European sovereign crisis and austerity measures needed to get the debt under control.

Mr. Jaung further discussed the dramatic decrease in the ten-year return of the traditional pension allocation of 65% in stocks and 35% in bonds since 2007 when the returns fell below 8%. He stated this is the primary reason for investing in new asset classes for the Fund that will enhance returns and asset classes that will mitigate risk in the future.

Activities Since September Trustee Meeting

Mr. Jaung stated that Meketa conducted a full review of PNC Bank's custodian relationship. He further stated that only three investment portfolios are held at PNC Bank. This made managing the Fund very difficult and inefficient. After the review, Meketa concluded that PNC Bank is a capable custodian and all the investment portfolios should be held there.

It was discovered that the contract with PNC Bank was established in 1987 with no changes to the fee. PNC's initial proposal to Meketa's request to be the custodian for all of the assets was 3 basis points or approximately $30,000. When asked to review this new proposal, PNC reduced the fee to 1.5 basis points or $15,000.

Meketa also conducted a survey and received quotes from five other banks. The quotes ranged from $12,000 to $26,000. Meketa believes the new proposal from PNC is fair and recommends the Trustees accept the new arrangement with PNC.

After discussion, On MOTION made and seconded, the Trustees voted approval of the following:

> **RESOLVED to approve the new fee proposal of 1.5 basis points or $15,000 from PNC Bank to custody all the Fund's assets, subject to negotiation of a custodial agreement acceptable to co-counsel.**

Mr. Jaung also stated that Alan Spatrick and Fran Peters were added as authorized signatories at PNC Bank. He handed out authorized signatory forms for the co-chair's signatures to have Meketa added as an authorized signatory with the individual investment managers.

<u>Aggregate Fund Review</u>

Mr. Spatrick began by reporting that the total Fund's value was $103.1 million, an increase of roughly $3 million since the end of September 2011. He reported that the Fund is invested in five dedicated asset classes as of 10/31/2011. Since then, the Fund made a $5 million investment in TIPS, a new asset class, and completed two searches in new asset classes -- emerging markets equity and bonds.

The Fund is currently overweight in domestic equity and investment grade bonds relative to the asset allocation approved by the Trustees at the previous meeting. The two overweight asset classes will be the funding sources for the new investments in emerging markets equity and bonds, and Meketa expects that the Fund will be within the approved asset allocation range within six to nine months.

Mr. Spatrick further reported that although the Fund currently did not have a dedicated high yield manager, both PIMCO and WAMCO owned high yield bonds, giving the Fund a 3% exposure to high yield, not far below the 5% target.

Mr. Spatrick stated that there were no changes to the manager roster since the last meeting. He reviewed Amalgamated Bank's consent order with the State of New York and stated that Meketa has concluded that it is highly unlikely that the Fund's assets will be directly affected by this development. He reiterated that Meketa does not recommend immediate change.

Mr. Spatrick concluded by reviewing the total Fund performance, each asset class performance, and individual manager performance. He noted that the Fund's YTD return through October 30th was 1.3% and was the result of a very poor 3rd quarter result of -8.5%.

Manager Search Overview

Mr. Spatrick began by detailing Meketa's overall manager search process. He then detailed the process Meketa used for the selection of Vanguard Inflation Protected Securities Fund. The other candidates were BlackRock, Mellon Capital, Northern Trust and SSGA. Mr. Spatrick commented that all the candidates were fine organizations but Vanguard offered the most competitive fee schedule and is a large, resourceful organization that has been managing this TIPS strategy for over a decade. Meketa was able to purchase $5 million of this fund for the Pension Fund in November.

Mr. Spatrick advised the Trustees that two managers were selected for emerging markets equity mandates. DFA and Vontobel have different but complementary styles. DFA is a diversified manager with over 2000 names in the fund and uses a quantitative methodology. Vontobel is more concentrated, with 70 to 90 names, and uses a fundamental approach. DFA will be funded with $4 million and Vontobel will be funded with $3 million as soon as legal counsel reviews the investment management agreements, with funding to come from Artio ($1.4 million) and the Amalgamated S&P 500 Index Fund ($5.6 million).

Mr. Jaung began the emerging markets debt manager search discussion by explaining the difference between "local" currencies focused style versus "hard" ($ denominated) currency focused style. He also discussed how this asset class has less sensitivity to the U.S. interest rate movement.

Mr. Jaung reviewed the two finalist firms, Payden & Rygel and Stone Harbor, including the history, investment teams, investment process, and available investment products. He told the Trustees Meketa decided to hire Stone Harbor for two of its products, local currency based and hard currency based funds. The assets are to be split $4.2 million in hard currency fund and $2.8 million in local currency. These mandates will be funded after co-counsel reviews the investment agreements.

2012 Investment Activities

After reviewing the three manager searches, Mr. Jaung laid out investment ideas the Fund will most likely participate in for 2012. He began with the idea of adding a defensive domestic equity strategy to complement the large cap index fund and small cap index fund currently managed by Amalgamated. The premise is that a higher dividend strategy, which also focuses on higher quality and stable earnings companies, offers superior downside protection during difficult markets. It also offers an attractive return profile over a full market cycle.

Mr. Jaung addressed further diversifying the fixed income portion of the Fund. He said Meketa will be adding a dedicated high yield manager and possibly a dedicated floating rate (bank loans) manager. These two fixed income styles offer a higher yield and in case of bank loans, offer inflation protection as the rates on the loans reset higher as interest rates increase.

The Trustees thanked Mr. Jaung and Mr. Spatrick for their report and they were excused from the balance of the meeting.

X. CO-COUNSEL REPORT

Summary Plan Description ("SPD") Update

Co-Counsel informed the Trustees that the SPD has been updated and, now that the change in the number of Trustees is complete, it will be sent to the printer for publishing and mailing to the participants.

XI. ACTUARY REPORT

A. Actuarial Valuation as January 1, 2011

Mr. Kevin Woodrich of Cheiron, Inc. ("Cheiron") distributed copies of the "Actuarial Valuation Results as of January 1, 2011" and reviewed it in detail. A copy of the report is attached to and made a part of these minutes as Exhibit E.

B. Actuarial Update

Mr. Kevin Woodrich of Cheiron, Inc. ("Cheiron") 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 F. Mr. Woodrich reviewed the projected outlook for the Fund assuming a 0% return for the 2011 Plan year and a 7.5% annual return thereafter. He reported that the Fund is projected to emerge from Critical Status and will be certified in the Green Zone, without a change in the rate of return, for the 2012 Plan year.

The Trustees thanked Mr. Woodrich for his report and he was excused for the balance of the meeting.

XII. OTHER FUND BUSINESS

A. United Bank - Automated Clearing House Services

Mr. Tierney reviewed a proposal, contained in the meeting booklet, from UNITED Bank to provide Automated Clearing House ("ACH") services to the Fund. He said this service would provide Participants with the option of electing to receive their monthly pension benefits via direct deposit. Mr. Tierney reported that the proposed fees to provide this service would be $50 per month and $0.15 per transaction. He said the bank currently charges $0.15 per check. He said if the Trustees elected to pursue this option, it would take three to four months to implement.

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

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

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

Mr. Tierney reported that the 2011 Comprehensive PBGC premium had been filed timely.

C. <u>Form 5500 for the Plan Year Ended December 31, 2010</u>

Mr. Tierney reported the timely filing, under extension, of the Form 5500 for the Plan year ended December 31, 2010.

D. <u>104(d) Multiemployer Summary Plan Information Notice</u>

Mr. Tierney reported that the 104(d) Multiemployer Summary Plan Information notice was reviewed by Co-Counsel and mailed to the appropriate parties prior to the November 15, 2011 deadline.

XIII. ADMINISTRATIVE MANAGER REPORT

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

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

B. <u>Third Quarter 2011 Administrative Manager's Report</u>

Mr. Tierney presented and reviewed the second quarter 2011 Administrative Manager's Report, a copy of which is attached to and made a part of these minutes as Exhibit H.

C. <u>Third Quarter 2011 Pension Applications</u>

Mr. Tierney presented and reviewed the third quarter 2011 Pension Benefit Application Report, a copy of which is attached to and made a part of these minutes as Exhibit I.

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

RESOLVED that the third quarter 2011 pension benefit applications are approved for payment as reported.

XIV. NEXT MEETING DATE AND LOCATION

The Trustees scheduled the next regular Board meeting to be held March 29, 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.

XV. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,

Solomon Keene
Secretary-Treasurer

AMS
(Orig.12-19-11)

Attachments:
Exhibit A: Calibre CPA Group, PLLC: Compliance Audit Program Status Report as of December 3, 2011
Exhibit B: Associated Administrators, LLC: Payroll Audit Collections Report as of December 5, 2011
Exhibit C: Katz and Ranzman, PC: Collection Counsel Report
Exhibit D: Cheiron, LLC: Actuarial Valuation as of January 1, 2011
Exhibit E: Cheiron, LLC: Actuarial Update
Exhibit F: Meketa Investment Group, LLC: Fund Evaluation Report
Exhibit G: Associated Administrators, LLC: Administrative Manager Report, Second Quarter 2011
Exhibit H: Associated Administrators, LLC: Administrative Manager Report, Third Quarter 2011
Exhibit I: Associated Administrators, LLC: Pension Benefit Application, Third Quarter 2011