Warehouse Employees Union Local No. 730
Pension Trust Fund

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MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES OF THE WAREHOUSE EMPLOYEES UNION LOCAL NO. 730 PENSION TRUST FUND SEPTEMBER 6, 2012 LANDOVER, MARYLAND

The following Trustees were present:

UNION TRUSTEES	**EMPLOYER TRUSTEES**
R. Brooks – Chairman	M. Bull – Secretary
R. Johnson	J. Navin
A. Smith	J. Paradis

Also present were:

H. Burton – Morgan, Lewis & Bockius, LLP
A. Cochran – Associated Administrators, LLC
M. DeLancey – Dickstein Shapiro, LLP
M. Herwig – PNC Bank, NA
E. Odell – Calibre CPA Group, PLLC
S. Raeder – Calibre CPA Group, PLLC
D. Russell – Investment Performance Services, LLC
R. Tierney – Associated Administrators, LLC

I. CALL TO ORDER

A quorum being present, the meeting was called to order.

II. MINUTES

The Trustees read the minutes of the last regular meeting held on June 8, 2012.

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

> **RESOLVED that the minutes of the last regular meeting held on June 8, 2012 were approved as presented.**

III. FINANCIAL REPORT

The Trustees welcomed Mr. Michael Herwig of PNC Bank, NA, and Mr. David Russell of Investment Performance Services (IPS) to the meeting.

A. Custodian Bank – PNC Bank, NA

Mr. Herwig distributed copies of the Summary of Activity report for the period January 1, 2012 through June 30, 2012. Such report indicated a beginning market value of $146,019,131, receipts of $2,947,445, gains of $7,816,720, and disbursements of $9,180,033, producing an ending market value of $147,603,263.

B. Investment Consultant – Investment Performance Services, LLC

1. Master Consulting Report

a. Investment Performance

Mr. Russell reviewed the overall performance of the Fund's investment managers noting that the investment performance of the total portfolio for the period January 1, 2012 to June 30, 2012 was 5.5%, gross of fees.

b. Asset Allocation

Mr. Russell reviewed the Fund's asset allocation as of June 30, 2012: U.S. Equities 38.4%, International Equities 9.3%, Fixed Income Core 9.5%, Fixed Income High Yield 8.9%, Real Estate 15.3%, Hedge Fund of Funds (HFOF) 8.1%, Global Tactical Asset Allocation (GTAA) 9.6%, and cash 0.5%. He noted that the allocation to International Equities was within the allowable target range, but 1.8% above the 7.5% actual target. IPS recommended the Fund rebalance and transfer assets to High Yield and Real Estate investments. He noted that all other allocations were within the targeted range.

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

> **RESOLVED, in accordance with the recommendation of the investment consultant, to transfer $1.0 million from Johnston International Equity Fund to Penn Capital Core High Yield Bond Fund AND to transfer $1.0 million from Acadian Non-US Concentrated Fund to PRISA III Fund.**

c. Investment Manager – Performance Review

Mr. Russell presented the individual investment manager performance reviews. This section of the report also identifies investments and situations that do not comply with the specific parameters of the Fund's Investment Policy Statement.

i. Westfield Capital Management (Westfield) – US Stock Large Cap Growth

Mr. Russell reported that Westfield is lagging the index benchmark. He said this poor performance is the result of pure stock selection, not sector allocations or weighting. He said this is true for many managers operating in this investment space. IPS will monitor this manager for performance.

ii. **Johnston Asset Management (Johnston) – U.S. Stock Large Cap Neutral**

Mr. Russell reported that Johnston's return continues to lag the benchmark, due to the lack of "Apple" stock in their portfolio. "Apple" is in the index Fund and has affected returns enough to cause managers not holding this stock to trail the index benchmark. IPS will continue to monitor this manager for performance.

iii. **<u>Meridian and Ivy Clarus – Hedge Fund of Funds</u>**

Mr. Russell provided an update on the redemptions from Meridian and Ivy Clarus. The Meridian Special Investments SPC had a market value of $843,614 as of June 30, 2012. The Meridian Segregated Portfolio held $47,450 as of June 30, 2012.

Mr. Russell reported that Ivy Clarus Associates II investment held $187,498 as of June 30, 2012. He noted this was considerably less than the amount held as of March 31, 2012, $292,267, and was due to the discount at which the underlying assets were sold, as reported at the last Board meeting on June 8, 2012.

IPS will continue to monitor Meridian and Ivy Clarus for final redemptions.

2. <u>Quarterly Performance Report</u>

Mr. Russell presented the quarterly performance report for the period ended March 31, 2012. He noted the assets held by the investment managers on March 31, 2012 were as follows: Rothschild – LCV held $12,302,066, Westfield Capital Management held $12,273,425, Johnston Asset Management held $14,259,022, Atlanta Capital held $17,859,256, Johnston International Equity held $6,598,622, Acadian held $7,188,002, C.S. McKee held $14,071,890, Penn Core held $13,146,717, PRISA III held $13,390,721, Multi-Employer Property Trust held $9,233,751, Mesirow Advanced Strategies held $10,971,585, Meridian Special Investments held $843,614, Ivy Clarus Associates II held $187,498, BlackRock Financial Management held $14,196,287, the cash account held $789,218 and the Meridian Segregated portfolio held $47,450. Mr. Russell reviewed the summary of investment results for the period ended June 30, 2012, including trailing quarter, trailing year-to-date, and trailing one, three and five year periods.

3. Investment Consulting Contract Renewal

Mr. Russell reviewed a memorandum from Mr. Rich Sichel to Mr. Tierney dated July 16, 2012 in which Investment Performance Services modified their previous request for an increase in the annual fee. This modification offers a three-year contract with a progression in annual fees from $70,000 to $75,000. In response to comments from the Trustees at the June 8, 2012 meeting, IPS also offered a modified service proposal, including the current Master Consulting services with rebalancing of asset recommendations on a monthly basis. The proposed fees for this agreement also follow a progression in annual fees, from $80,000 to $85,000, over a three-year period.

The Trustees thanked Mr. Russell for his report and he was excused from the meeting.

The Trustees discussed the contract renewal proposal from IPS and the additional levels of service available.

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

> **RESOLVED to accept the proposal of IPS to provide Master Consulting services with rebalancing of asset recommendations on a monthly basis. Annual fees, beginning on October 1, 2012 will be $80,000, and increase by $2,500 each year, under a three-year agreement ending on September 30, 2015.**

IV. ACTUARY REPORT

Mr. Tierney reported that Mr. Hardcastle had a scheduling conflict and was unable to attend this meeting, but had sent a list of questions for the Trustees to consider, regarding the completion of the Valuation and preparation of options for updating the Rehabilitation Plan (RP). The Trustees expressed concern that this information was not yet available and directed the Administrative Manager and Counsel to discuss with Mr. Hardcastle the needs of the Fund. They noted any updates to the RP will need to be in place for the upcoming collective bargaining agreement (CBA) negotiations with

Washington Food & Supply. The CBA expires on October 31, 2012. The Trustees need a final Valuation and options regarding changes to the RP or to implement "reasonable measures" to avoid or forestall insolvency no later than the end of September. This information should be shared with the appointed Subcommittee, in order to make a final recommendation to the Board for approval by mid-October.

Mr. Tierney said he would set up a meeting with himself, Mr. Burton, and Mr. Hardcastle to discuss this matter as soon as possible.

V. AUDITOR REPORT

The Trustees welcomed Ms. Ellen Odell and Mr. Steve Raeder of Calibre CPA Group, PLLC to the meeting.

Ms. Odell reviewed the payroll audit status report, which was distributed to the Trustees. She noted completion of the payroll audit of Washington Food & Supply for the period January 2009 to December 2011. Findings included underpayments for omitting worked hours. The employer owed $28.23 and has paid the Fund, closing this audit.

Ms. Odell then provided an update on the payroll audits of Giant Warehouse and Giant Recycling (Giant). She noted the original period under audit was January 2009 to December 2011. While conducting this audit, two issues arose. The first was notification from the Trustees to evaluate the timeliness of contributions when an employee moves from Vacation Relief to Regular status. Calibre was asked to review a self-report from Giant indicating underpayments across the Legal Pension and Welfare Funds, of approximately $140,000, and compare it to actual payroll records to confirm the amount. Ms. Odell said her firm is working on this project but is currently waiting on additional information from Giant and the Administrative Manager. Mr. Tierney reported that the files from Associated Administrators would be available by the end of the week. Ms. Odell reported that a review of the 2009-2011 records indicated that the employer did properly make contributions on these employees during this period.

Ms. Odell said the second issue regarding the Giant payroll audit was found by Calibre during the normal course of the audit. They noted that Giant was truncating hours. Meaning, for example, when an employee worked 34.2 or 34.7 hours, the employer's computer program was rounding down in all cases and only reporting and contributing on 34 hours for that employee. Over the period of a three-year audit cycle, this amounts to findings of over $372,000 owed by Giant to the Legal, Pension, and Welfare Funds combined. The report was filed with the Fund Office this week. Mr. Tierney noted receipt and said that a copy of the audit and the demand for payment letter will be sent to Giant next week in accordance with the Fund's collection policy. Ms. Odell said that Giant has admitted to the practice of truncating hours through their computer system programming.

The Trustees then discussed expanding the Giant audit to look at the truncating of hours in years prior to 2009. They asked Counsel to review and report on the statute of limitations for collection of contributions owed to the Fund. They asked Calibre to consider options for conducting sample audits and extrapolating results, and to estimate for the Trustees the cost of performing this additional work, once the statute of limitations is determined. Additionally, the Trustees considered the question of why the Fund's previous payroll auditor, Salter & Company, had not reported the truncating of hours by Giant as it seems to be an issue that should have been discovered in the course of normal payroll auditing. Mr. Tierney said that Salter & Company had conducted a payroll audit of Giant for the January 2005 to June 2008 period and reported no discrepancies. The Trustees recalled that Salter & Company had been terminated in part for conducting a payroll audit of McKesson and missing a key issue that resulted in McKesson owing the Legal, Pension and Welfare Funds over $350,000. The Trustees directed the Administrative Manager to work with Counsel on drafting a letter to Joe Herishen at Salter & Company asking for a response on the truncating of hours issue in the previous audit of Giant.

Ms. Odell reported that they are also currently working on the exit audit of Jessup Logistics and the truncating of hours issue is also present with this employer, as it purchased the facility from Giant and continued with the contribution policy in place, truncating hours reported to the Funds. This audit is not yet complete.

Trustee Paradis abstained from participation in the discussion regarding the payroll audits of Giant.

The Trustees thanked Ms. Odell and Mr. Raeder for their report and they were excused from the meeting.

VI. COUNSEL REPORT

A. Policy Interpretation – Post-Retirement Employment

Mr. DeLancey reported that the Fund's Administrative Manager asked for guidance on interpreting the Funds' newly adopted plan rule regarding post-retirement employment. He said the Fund Office had recently become aware of a retiree that is working at a warehouse located within 100 miles of the Local Union Office. The company operating the warehouse is H&M Bay, Inc. and the question is whether or not this employer is a competitor of the Fund's participating employers. The employer Trustees said they were only just made aware of this issue and would like to investigate further whether or not H&M Bay, Inc. would be considered a competitor. They will report back the Board on this issue. In the meantime, this retiree will continue to receive pension benefits from the Fund.

B. Withdrawal Liability Policies and Procedures

Mr. DeLancey reported that he and Mr. Burton would be working with the Fund Office on the policies and procedures related to withdrawal liability. He noted that Jessup Logistics has withdrawn and it is possible McKesson Corporation will be withdrawing this year. Both employers would owe withdrawal liability payments to the Fund.

C. **Fund Counsel – Morgan, Lewis, & Bockius, LLP: Rate Increase**

Mr. Tierney reported that the Employer Trustees had approved a fee increase from Mr. Burton's firm, Morgan, Lewis, & Bockius, effective January 1, 2012.

Mr. DeLancey and Mr. Burton said there were no other legal matters pending before the Board of Trustees at this time.

VII. ADMINISTRATIVE MANAGER REPORT

Mr. Tierney presented the Administrative Manager Report for the second quarter 2012. Such report indicated contribution income of $1,392,296, miscellaneous income of $4,099, and interest and dividend income of $569,493, producing a total income of $1,965,888. Expenses included $4,322,371 of pension benefit expense and $305,402 of operating expense, producing a total expense of $4,627,773 for the quarter. This resulted in a net deficit of $2,661,885 for the quarter. Mr. Tierney noted that contributions were made on behalf of 710 active plan participants.

He noted there were no contribution delinquencies to report. Finally, he reviewed the pension applications which required Trustee approval.

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

> **RESOLVED that the pension applications as contained in the Administrative Manager's second quarter 2012 report were approved for payment.**

VIII. INVOICES

Mr. Tierney presented a list of invoices dated September 6, 2012. He noted that there were no additions, deletions or changes to the list.

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

> **RESOLVED that the list of invoices dated September 6, 2012 was approved for payment as presented.**

IX. PARTICIPANT APPEAL

Appeal Number	***Issue***	***Board Decision***
P11/159-2873	***Pension Eligibility***	***Approved***

X. OTHER FUND BUSINESS

A. Compliance – 408(b)(2)

Mr. Tierney reported that the Fund Office had received the majority of the required responses from vendors to the request of fee disclosures as required under the regulation commonly known as 408(b)(2). He said second request letters have been sent to those vendors that have not responded. Mr. Burton requested that the received responses be sent to his office for review.

B. Fiduciary Liability Insurance Renewal and Waiver of Recourse Premiums

Mr. Tierney noted renewal of the Fiduciary Liability policy with CHUBB, through the broker, the McLaughlin Company. He said the annual premium increased by 5% and was approved by the Trustees in an electronic poll conducted in August, 2012.

Ms. Cochran advised the Trustees that letters regarding their required payment of the Waiver of Recourse premium of $25 would be mailed to them in the upcoming weeks. Payment should be made directly to the broker, not the Fund Office.

C. Summary of Material Modifications

Mr. Tierney reported that the Summary of Material Modifications, addressing the Plan change regarding post retirement employment, was mailed to participants.

D. Eight O'clock Coffee – Self Reporting Contributions Owed

Mr. Tierney noted receipt of a letter from Eight O'clock Coffee self-reporting an internal audit that discovered contribution errors for three employees that moved from relief worker to regular status. Payment of contributions and back-up reporting was sent to the Fund Office.

E. Web Analytics

Mr. Tierney reported that during the period January 1, 2012 to May 31, 2012, 173 participants had visited the Fund's webpage on the Associated Administrators website.

F. "For Your Benefit" Newsletter

Mr. Tierney said the July 2012 "For Your Benefit" newsletter was sent to participants.

XI. NEXT MEETING DATE AND LOCATION

After discussion, the Trustees selected December 14, 2012 as their next regular meeting date immediately following the companion Legal Fund meeting at a location to be determined.

XII. ADJOURNMENT

There being no further business to come before the Trustees, the meeting was adjourned.

Respectfully submitted,

Michael Bull

Secretary