Food Employers Labor Relations Association
And United Food & Commercial Workers
Pension Fund

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MINUTES OF THE MEETING OF THE
BOARD OF TRUSTEES OF THE
FELRA AND UFCW PENSION FUND
JANUARY 10, 2018
LANDOVER, MARYLAND

The following Trustees were present:

UNION TRUSTEES

M. Federici - Chairman
T. Hipkins
C. Hoffmann
G. Murphy, Jr.

EMPLOYER TRUSTEES

J. Paradis - Secretary
D. Dosenbach

Also present were:

Y. Anwar - UFCW Local 400
H. Burton - Morgan, Lewis & Bockius, LLP
J. Chorpenning - UFCW Local 27
L. DuVall - Associated Administrators, LLC
J. Hack - UFCW Local 27
A. Hanson - UFCW Local 400
J. Harrison - UFCW Local 27
J. Herishen - Salter and Company
N. Hill - UFCW Local 27
N. Jacobs - UFCW Local 400
W. Jensen - Associated Administrators, LLC
G. Kalwarski - Cheiron
C. Mietlicki - Cheiron
C. Murphy - Associated Administrators, LLC
S. Ridore - Safeway, Inc.
S. Sanchez - Slevin & Hart, P.C.
R. Sichel - Investment Performance Services
B. Slevin - Slevin & Hart, P.C.
L. Walsh - Associated Administrators, LLC
M. Wilson - UFCW Local 27
K. Woodrich - Cheiron

I. CALL TO ORDER

The Chairman called the meeting to order. Mr. Jensen noted that Trustee Meisen had retired, resulting in two employer vacancies on the Fund. Mr. Paradis said the Food Employers Labor Relations Association would appoint Mr. Michael Goble to the Board Trustees, replacing Mr. Meisen.

II. MINUTES

The Trustees reviewed the minutes of the regular meeting held on July 12, 2017, the special meeting held on July 13, 2017, and the special meeting held on July 19, 2017, which were pre-circulated, and

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

> **RESOLVED that the minutes of the regular meeting held on July 12, 2017, the special meeting held on July 13, 2017, and the special meeting held on July 13, 2017 are approved as presented.**

III. FINANCIAL REPORT

A. PNC Bank

Mr. Jensen presented the Summary of Activity Report for the period January 1, 2017 to November 30, 2017 as provided by PNC. Such report indicated a beginning balance of $2,112,439, receipts of $45,478,813, net transfers from managers of $147,154,031, disbursements of $140,094,852, and earnings of $116,610, resulting in an ending balance of $54,767,041 as of November 30, 2017.

B. Investment Performance Services

1. Preliminary Performance Report

The Trustees welcomed Mr. Richard Sichel of Investment Performance Services to the meeting.

1. Preliminary Update – November 30, 2017

Mr. Sichel reviewed the Preliminary Performance Report for the period ending November 30, 2017. Such report indicated an ending market value of $305,204,600. The year-to-date performance through November 30, 2017 was 10.6% gross of fees.

2. Master Consulting Report – September 30, 2017

Mr. Sichel reviewed the Master Consulting Report for the period ended September 30, 2017. Such report indicated an ending market value of $314,796,838. The year-to-date performance through September 30, 2017 was 8.5% gross of fees. Mr. Sichel then reviewed the individual manager summaries and the current asset allocations.

3. EntrustPermal

Mr. Sichel reported that the Fund's portfolio in the Entrust Capital Diversified Fund was fully liquidated in October 2017.

4. Asset Allocation Glide Path Recommendation

Mr. Sichel presented a draft Asset Allocation and Glide Path report with recommendations for target allocations and future cash flow projections. Mr. Federici asked if the IPS report was in final form as opposed to a draft report. Mr. Sichel responded that it was in final form.

Mr. Dosenbach expressed concern about adopting 2019 target allocations now, given the investment outlook may change between now and 2019. After discussion,

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

> RESOLVED to adopt the IPS recommendation for an Asset Allocation Glide Path.

The Union Trustees voted in favor of the resolution. The Employer Trustees voted against the resolution. Therefore, the motion deadlocked.

Mr. Federici said that there have been discussions of the IPS recommended Glide Path since 2015. He asked Mr. Sichel if the target allocation as of January 1, 2018, as described in the IPS Glide Path Report, was his final recommendation. Mr. Sichel responded that it was. Mr. Sichel also stated his recommendation that the Fund's real estate portfolio be liquidated by January of 2019. He advised that the real estate portfolio liquidation process would not be immediate.

The Trustees discussed the target allocations and allocation ranges in the Fund's investment policy. Mr. Paradis noted the Fund has an investment policy in place, but suspended rebalancing because deviations in the target allocations is largely due to the timing and cash flow needs of the Fund as it approaches insolvency. He asked Mr. Sichel if that was correct. Mr. Sichel agreed, noting that flexibility was needed.

The Trustees discussed amending the investment policy to acknowledge that there could be deviations from the investment allocation ranges in the policy due to the Fund's liquidity needs. The Trustees also discussed IPS's asset allocation recommendations.

After further discussion,

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

> **RESOLVED to adopt the January 1, 2018 asset allocation targets recommended by IPS, amend the Investment Policy Statement to reflect that rebalancing of the Fund's allocation ranges to match the targets may not always be appropriate given the Fund's liquidity needs, and liquidate the Fund's real estate portfolio in four quarterly liquidations in 2018.**

Mr. Sichel reported that Cowen is acquiring ConvergEx and that IPS does not have any concerns regarding this acquisition.

Mr. Jensen reported that Gottex, now Lumx, has submitted an invoice to the Fund for repayment of an overpaid reimbursement. Mr. Sichel advised that it would be appropriate for the Fund to pay the invoice. The Trustees agreed.

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

C. <u>Auditor's Report</u>

1. Financial Statements – December 31, 2016

The Trustees welcomed Mr. Joseph Herishen of Salter & Company to the meeting. Mr. Herishen presented the Financial Statements for the period ended December 31, 2016. He noted that the opinion was unmodified and the financial statements were in conformity with generally accepted accounting principles.

Mr. Herishen reported that total assets were $392,187,340 and total liabilities were $1,068,845, producing net assets available for benefits of $391,118,495. Mr. Herishen reviewed the Notes to Financial Statements, Schedule of Assets Held for Investment Purposes, Schedule of Employer Contributions, and Schedule of Administrative Expenses.

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

> **RESOLVED to accept the Auditor's 2016 Financial Statements as presented.**

2. Salter's Engagement Proposals

Mr. Herishen presented Salter's engagement letter for the 2017 audit. Mr. Herishen stated that the estimated retainer fees for the 2017 audit would not exceed $53,900, which reflects a decrease of $2,900 compared to the prior year. Non-retainer fees would range from $75.00 to $245.00 per hour.

In addition, Mr. Herishen presented an engagement letter for Payroll Compliance Services for the 2018 and 2019 Plan years. He noted that Salter's fees for services would range from $75.00 to $245.00 per hour, which would be capped for each company size as follows: Less than 100 employees - $1,200 - $1,650; 100 - 499 employees - $1,700 - $2,550; 500 – 999 employees - $2,600 - $3,550; more than 1,000 employees - $3,600 - $8,500. Mr. Herishen further noted that should the employer's payroll headquarters be located greater than 50 miles outside the D.C. metro area, it may be necessary to bill additional out-of-pocket costs using the standard IRS mileage rate or coach airfare.

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

The Trustees reviewed the engagement proposals submitted by Salter & Company. They asked Mr. Jensen to discuss the request with Mr. Herishen and provide a response.

After discussion and,

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

> **RESOLVED to authorize Chairman and Secretary to review and take action on the engagement proposals submitted by Salter & Company.**

IV. ACTUARY'S REPORT

The Trustees welcomed Mr. Gene Kalwarski, Mr. Kevin Woodrich, and Mr. Chris Mietlicki of Cheiron to the meeting.

A. 2017 Preliminary Valuation Results

Mr. Woodrich presented the draft 2017 Preliminary Actuarial Valuation Results and noted that the assumed rate of return remains at 7%. Mr. Woodrich reported that there were 17,288 active participants as of January 1, 2017. There were 13,680 terminated vested participants, and 18,362 participants in pay status as of January 1, 2017. The total market value of assets was $408,705,177 as of January 1, 2017 and the total actuarial value was $466,729,375. The actuarial liability was $1,736,030,322, resulting in a funding ratio on an actuarial value of assets basis of 26.9%. Mr. Woodrich said the final valuation would be available in the near future. Mr. Woodrich reported that the Fund is projected to become insolvent in 2020.

B. Engagement Proposal

Mr. Woodrich presented Cheiron's retainer fee request for 2018. He noted that Cheiron proposed a retainer fee of $65,328 ($5,444 per month), with the non-retainer fees ranging from $149 to $496 per hour.

The Trustees thanked the representatives from Cheiron for their report and they were excused from the meeting.

The Trustees reviewed the engagement request by Cheiron. After discussion and,

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

> **RESOLVED to approve Cheiron's 2018 engagement proposal as presented.**

V. ATTORNEY'S REPORT

A. 2017 Rehabilitation Plan Update

Mr. Slevin reported on the 2017 Rehabilitation Plan update.

B. Benefit Calculation Issues

Mr. Slevin reported on administration of the required minimum distribution rules and benefit calculation rules under the Plan relating to participants who continue in covered employment after age 70.5.

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

> **RESOLVED to delegate to Chairman and Secretary the authority to take any action necessary relating to administration of the required distribution rules and benefit calculation rules under the Plan relating to participants who continue in covered employment after age 70.5 .**

C. Internal Revenue Service ("IRS") Audit

Mr. Slevin reported on the IRS investigation of the 2015 Plan Year.

D. G & G Eddies Withdrawal Liability and Delinquency

Mr. Slevin reported on G & G Eddie's complete withdrawal from the Fund and the delinquent contributions owed to the Fund by G&G Eddie's. After discussion,

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

> **RESOLVED to authorize Chairman and Secretary to take any necessary action to address this matter.**

E. Department of Labor ("DOL")

Mr. Slevin reported on the DOL's ongoing investigation of the Fund.

F. Pension Benefit Guaranty Corporation ("PBGC") Data Request

Mr. Slevin reported on the Fund's response to the PBGC's data request.

G. Porsche Group Action

Mr. Slevin reported on the Porsche group class action litigation.

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

> **RESOLVED to authorize Chairman and Secretary to take any and all actions necessary to pursue potential collection of Porsche Class action settlement proceeds.**

H. Treasury Wine Estates Class Action

Mr. Slevin reported on the class action litigation concerning Treasury Wine Estates. Mr. Jensen said that payment was expected by the end of January 2018 per correspondence received.

I. Meridian Class Action and Madoff Victim Fund

Mr. Slevin reported that the Fund had received $395,402.28 from the Madoff Victim Fund and $393,691.09 as settlement from the Meridian Class Action suit filed on behalf of the Fund.

J. EntrustPermal

Mr. Slevin reported on correspondence the Fund received from EntrustPermal, which presents two options relating to the Fund's remaining portfolio under investment with this manager Option 1 is for EntrustPermal to continue to manage the small illiquid portfolio, and Option 2 is for EntrustPermal to liquidate the remaining portfolio as soon as possible. IPS recommended Option 1. The Trustees agreed with IPS's recommendation.

K. DOL Final Regulations Regarding Claims and Appeals Procedures for Disability Benefits

Mr. Slevin reported on the Department of Labor Regulations Regarding Claims and Appeals Procedures for Disability Benefits.

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

> **RESOLVED to authorize Chairman and Secretary to take any action necessary to comply with disability regulations effective April 1, 2018.**

L. Restated Withdrawal Liability Rules

Mr. Slevin presented the Restated Withdrawal Liability rules.

M. Cowen Amendment

Mr. Slevin presented an amendment to the Cowen agreement.

VI. ADMINISTRATIVE MANAGER'S REPORT

A. Second Quarter 2017 Report

Mr. Jensen presented the administrative manager's report for the Second Quarter 2017, which had been pre-circulated. Such report indicated contribution income of $11,181,779, interest and dividend income of $522,897, transfers from assets of $26,297,886, withdrawal liability payments of $164,645, and miscellaneous income of $32,857, producing total income of $38,200,064 for the quarter. Total expenses were $38,728,856, producing a net operating deficit of $528,792. Mr. Jensen noted that contributions were remitted on behalf of 16,969 Plan participants.

Mr. Jensen reviewed the pension applications contained in the administrative manager's Second Quarter 2017 Report.

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

> **RESOLVED that the pension applications contained in the administrative manager's Second Quarter 2017 report are approved for payment.**

B. Third Quarter 2017 Report

Mr. Jensen presented the administrative manager's report for the Third Quarter 2017, which had been pre-circulated. Such report indicated contribution income of $11,598,328, interest and dividend income of $575,333, transfers from assets of $43,974,008, withdrawal liability payments of $164,645, and miscellaneous income of $6,138, producing total income of $56,318,452 for the quarter. Total expenses were $37,952,916, producing a net operating surplus of $18,365,536. Mr. Jensen noted that contributions were remitted on behalf of 16,920 Plan participants.

Mr. Jensen reviewed the pension applications contained in the administrative manager's Third Quarter 2017 Report.

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

> **RESOLVED that the pension applications contained in the administrative manager's Third Quarter 2017 report are approved for payment.**

VII. <u>INVOICES</u>

The Trustees reviewed the list of invoices dated January 10, 2018. It was noted 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 invoices on the list dated January 10, 2018 are approved for payment.**

VIII. <u>OTHER FUND BUSINESS</u>

A. <u>Contribution Increase Allocation for Participating Employers</u>

The Trustees advised that the bargaining parties recently directed a three cent increase in the Giant Food Tier 2 hourly contribution rate effective April 1, 2017, and a three cent increase in the Safeway Tier 2 hourly contribution rate effective November 1, 2016, as well as concomitant increases in the other rates applicable to each such employer.

B. <u>Voluntary Separation Incentive Plan ("VSIP")</u>

Mr. Jensen said that Giant Food had offered a VSIP to its Tier I associates. The VSIP requires a response from interested employees by early February. The Fund office is assisting in the process.

IX. NEXT MEETING DATE AND LOCATION

The Trustees selected the following dates for future meetings: March 2, 2018 at a location near BWI airport, June 28, 2018 in Landover, Maryland, September 25, 2018 at a location near BWI airport, and December 12, 2018 in Landover, Maryland.

X. ADJOURNMENT

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

Respectfully Submitted,

Jason Paradis, Secretary

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