Food Employers Labor Relations Association
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Pension Fund

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MINUTES OF THE SPECIAL MEETING OF THE BOARD OF TRUSTEES OF THE FELRA & UFCW PENSION FUND HELD ON FEBRUARY 1, 2013 IN LANDOVER, MARYLAND

The following Trustees were present:

UNION TRUSTEES
M. Federici - Chairman
D. Blitzstein
J. Slivosky

EMPLOYER TRUSTEES
W. Kraemer – Secretary
J. Champion
F. Stegman

Also present were:

H. Burton – Morgan, Lewis & Bockius, LLP
S. Charlton - NEPC
M. DuVall – Northern Trust
S. Halpern – Gallagher Fiduciary Advisors
W. Jensen – Associated Administrators, LLC
M. Johnson – Gallagher Fiduciary Advisors
J. Maclean – Wurts and Associates
J. McCareins – Northern Trust
J. Mitchell – Northern Trust
B. Ness – Wurts and Associates
J. Paradis – Ahold USA
J. Scott – Wurts and Associates
B. Slevin – Slevin & Hart, P.C.
M. Sullivan – NEPC
C. Vella – Northern Trust

I. CALL TO ORDER

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

A. TRUSTEE APPOINTMENT

Mr. Jensen reported that the Management Trustees had appointed Mr. Jeffrey Champion as a Pension Trustee effective January 28, 2013.

The Chairman noted that this is a special meeting with regard to the request for proposal ("RFP") process and to interview candidates for an Outsourced CIO ("O-CIO").

II. <u>GALLAGHER FIDUCIARY ADVISORS ("GFA")</u>

The Trustees welcomed Samuel Halpern and Michael Johnson of GFA to the meeting. They reviewed a report concerning the three finalists -- NEPC, Wurts, and Northern Trust - for the O-CIO role. Mr. Halpern recommended the Trustees consider the sophistication of investment research capabilities of the candidate firms in order to properly manage liquidity. He also suggested that the candidate firms' perspectives on asset allocation and risk factors should be considerated.

Trustee Blitzstein asked if GFA is receiving more O-CIO requests for RFP's. Mr. Halpern replied that it was.

A. <u>NEPC</u>

The Trustees welcomed Steve Charlton and Michael Sullivan of NEPC to the meeting. Mr. Charlton reviewed the history of NEPC. He said that the firm is focused on research and analysis to drive performance for clients. Mr. Sullivan said that if NEPC is selected to be an O-CIO the transition period would be approximate 4 – 8 weeks. He further advised that they would reduce the allocation to Global Tactical Alpha Assets and Risk Parity Asset portfolios since NEPC would perform discretionary investment for part of that current allocation. NEPC would also increase exposure to emerging debt. Finally, Mr. Charlton advised for the Mid-Atlantic UFCW and Participating Employers Pension Fund NEPC would focus more on illiquid markets, since the cash flow needs were not the same as the FELRA and UFCW Pension Fund. Mr. Charlton noted that the allocation of first year securities would be gradually reduced in the next five years with the portfolio having more fixed income securities.

Trustee Blitzstein asked if NEPC would perform any tail risk hedging in the portfolio. Mr. Charlton said that tail risk hedging is extremely expensive and NEPC does not utilize that tactic. Trustee Blitzstein asked who would represent NEPC. Mr. Charlton said that both he and Mr. Sullivan would be the representatives for the Fund. Mr. Charlton said that there was approximately $500,000 of potential savings in fees due to their ability to negotiate on behalf of all of their O-CIO clients' asset bases. Mr. Stegman asked how many Taft-Hartley clients are currently utilizing the full discretionary investment services of NEPC. Mr. Charlton responded that one Taft-Hartley client was currently using such service. Mr. Champion asked what fees would be charged for the service. Mr. Charlton responded that 10 basis points would be charged, with a minimum fee of $500,000.

The Trustees thanked the representatives of NEPC for their presentation and they were excused from the meeting.

B. Wurts and Associates

The Trustees welcomed Jeffrey Maclean, Jeffrey Scott, Bradley Ness of Wurts and Associates to the meeting. Mr. Maclean reviewed the history of the firm. He said that it currently has 17 professionals on the investment team. He proposed using Mr. Scott as the Fund's chief investment officer with his team members in support roles. Mr. Scott pointed to a lack of diversification that led to 2008 -2009 draw downs of the portfolio. The Wurts' solution would be to manage the risk and diversification as well as focusing on the valuation of the securities. Mr. Scott said that managing the tail risk potential losses in the portfolio would be a primary function if they were selected as O-CIO. Trustee Paradis noted that it did not appear that real estate was contained in the sample portfolio proposed by Wurts.

Mr. Scott said that real estate is part of an inflation category, which is included in the portfolio. Due to liquidity concerns the Fund would need to reduce its exposure to the real estate segment. Mr. Scott said that they would increase the hedge fund exposure since they want to obtain income from beta-merger–arbitrage trading with index fund price ranges. Mr. Scott said he is not a proponent of Hedge Funds of Funds as they typically have higher fees and additional layers between the direct investment manager and the Hedge Fund of Fund manager. He said that many Hedge Funds of Fund managers are moving to customized markets.

Mr. Halpern asked if Wurts would utilize tail risk insurance. Mr. Scott responded that Wurts could obtain such insurance, but it would be a decision of the Board of Trustees. There would be no additional cost if Wurts managed the tail risk for the Fund. Mr. Slevin asked if the Board of Trustees outsourced tail risk management, what firm would Wurts recommend. Mr. Scott said that PIMCO would be an example of an outsourced tail risk manager with a fee of 15 – 20 basis points.

The Trustees thanked the representatives of Wurts and Associates for their presentation and they were excused from the meeting.

C. Northern Trust

The Trustees welcomed Margaret DuVall, James Mitchell, John McCareins and Christopher Vella of Northern Trust to the meeting. Mr. Vella said that Northern Trust had been providing discretionary investment services since 1979 for their clients. He reviewed the asset allocation analysis process. He said that Northern Trust is able to look at small investment managers for enhanced returns for their clients. Mr. Paradis asked if real estate and infrastructure would be contained in the allocation due to their illiquidity. Mr. Valla said that they would not be in the FELRA portfolio, but would be included in the Mid-Atlantic UFCW and Participating Employers Pension Fund portfolio. Mr. Paradis asked if Northern would include Hedge Funds in their allocation. Mr. Valla said that global hedge funds would be utilized because they are a hedge equity product. Mr. Halpern asked if the O-CIO fee was inclusive of the use of the Northern Trust mutual funds. Mr. Vella said that the fees were inclusive of the index funds used by Northern Trust. Mr. Slevin asked if the Fund was required to use Northern Trust as a custodian. Mr. Vella said that they would be able to perform custody services or the Fund could use its current custodian.

The Trustees thanked the representatives of Northern Trust for their presentation and they were excused from the meeting.

Discussion

Mr. Kraemer asked the union trustees about their preference among the candidates based on the presentations made as the meeting. Trustee Blitzstein said that the union trustees preferred Wurts and Associates. Trustees Paradis and Kraemer said that they did not view Wurts as the best option. They said that the fees for Wurts were significantly greater than the other bidders.

III. ADJOURNMENT

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

Respectfully submitted,

Ward Kraemer, Secretary