Industry And Local 338
Pension Fund

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Minutes of the Meeting of the Board of Trustees

Held on October 15, 2019
via
Conference Call

The following Trustees were present:

UNION TRUSTEES	**EMPLOYER TRUSTEES**
Roberta Dunker[1]	Theresa Bresten
Mickey Smith	Chris Palmer
Barry Russell	

Also present were:

Kristen Barshinger – Associated Administrators, LLC
Pat Blizzard – SEI Institutional Group
Alicia Cochran – Associated Administrators, LLC
Mary Ann Dunleavy – Horizon Actuarial Services, LLC
Dylan Nitta – Horizon Actuarial Services, LLC
Elizabeth O'Leary, Esq. – Kauff McGuire & Margolis LLP
Jonathan Waite – SEI Institutional Group

I. CALL TO ORDER

The meeting was called to order at 9:17 a.m.

II. ACTUARY REPORT

Ms. Mary Ann Dunleavy and Mr. Dylan Nitta of Horizon Actuarial Services, LLC reviewed Horizon's report which was previously distributed.

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[1] Left the call at 11:00 a.m.

Ms. Dunleavy presented information on the Plan's funded status and the July 1, 2019 PPA zone certification. Ms. Dunleavy reviewed the PPA zone certification for the plan year beginning July 1, 2019, including the assumptions used and the resulting "Green" zone certification for the plan year. She discussed the Plan's emergence from critical status, including a review of benefit changes made by the Rehabilitation Plan and contribution rates that are included in current contracts. She discussed that now that the Plan is no longer operating under a Rehabilitation Plan, withdrawal liability calculations will include all contributions for allocation of unfunded liabilities and contribution rates for determination of the withdrawal liability payment amount, noting that contribution increases required by a Rehabilitation Plan are excluded from the withdrawal liability calculation while a plan is in critical status.

Ms. Dunleavy provided information on the major risks to the Plan, including mortality, plan maturity, and investment returns. She noted the significant actions the Trustees have taken to improve the Plan's funding, including the elimination of benefit subsidies and significant increases in contribution rates. She stated, however, that, due to the low number of active participants compared to retired and inactive vested participants, exposure to investment risk is high, since it is difficult to make up for investment losses with increased contributions. Projections of the Plan's funding illustrating the discussion were reviewed.

Ms. Dunleavy discussed the investment return assumption, providing the results of the Horizon Survey of Capital Market Assumptions and noting that in general, investment professionals are reporting lower expectations for long-term asset returns. Projections of the Plan's funding showing the sensitivity to investment returns were reviewed.

Ms. Dunleavy discussed funding goals, managing risk, the Plan's benefit design policy, investment policy, and the funding policy. The Trustees discussed setting a funding policy that would require continued, consistent and equitable contribution increases in all future contracts. Additional discussion of funding policy was deferred until after the report by the Investment Consultant.

Following the Investment Consultant's presentation, the investment return assumption was reviewed as part of a discussion on investment policy. Based on the information discussed and the information provided by the Capital Market Assumptions Survey, Ms. Dunleavy noted that the discount rate assumption will be set at 7.25% for the July 1, 2019 actuarial valuation.

The Trustees continued the discussion on developing a funding policy for the Plan. After reviewing alternatives,

> **MOTION was made, seconded and unanimously adopted to set a funding policy requiring all future contracts to include contribution increases of 3% of the average Plan contribution rate, (flat dollar rate for each year, similar to the method used to develop rates required by the Rehabilitation Plan).**

III. INVESTMENT CONSULTANT REPORT

Messrs. Patrick Blizzard and Jonathan Waite of SEI reviewed SEI's report which was previously distributed.

Mr. Blizzard reported that the Fund's ending market value as of September 30, 2019 was $89,495,426 and the fiscal year-to-date total rate of return is 3.31% compared to 3.66% for the index. Since inception with SEI (01/31/2011), the rate of return is 7.61%, compared to the 7.02% return for the index. The current portfolio allocation as of September 30, 2019 is 9.70% Large Cap Index Fund, 2.80% Small Cap Fund, 19.20% World Equity - US, 13.50% US Equity Factor Allocation Fund, 2.90% Emerging Markets Debt Fund, 6.80% Dynamic Asset Allocation Fund, 12.50% Core Fixed Income Fund, 4.90% Limited Duration Fund, 4.00% High Yield Bond Fund, 4.00% Opportunistic Income Fund, 2.80%

Emerging Markets Equity Fund, 3.30% Special Situations Fund CIT, 1.70% Structured Credit Collective Fund, 11.90% Core Property Collective Invest TR, and 0% cash and equivalents.

Mr. Waite discussed the current Pension Portfolio, along with three alternative portfolios (Portfolios A, B, and C) for the Trustees to review. Mr. Waite indicated that SEI recommended Portfolio A, which consisted of the following changes: (a) increasing the Russell 1000 Large Cap Index Asset Class from 10% to 11%, (b) increasing the World Equity ex-US Asset Class from 20.0% to 22.0%, (c) increasing the Emerging Markets Debt Asset Class from 3% to 4%, (d) decreasing the Dynamic Asset Allocation from 7% to 3%, (e) decreasing the Diversified Short Term Fixed Income Asset Class from 4% to 2%, and (f) increasing the Core Fixed Income Asset Class from 12.5% to 14.5%. Mr. Waite explained that these changes would not have any fee impact.

After discussion,

MOTION was made, seconded and unanimously adopted to approve the recommendation of SEI for Portfolio A as outlined in SEI's report.

IV. APPROVAL OF MINUTES

The minutes of the meeting held on July 16, 2019, which were previously distributed, were reviewed.

MOTION was made, seconded and unanimously adopted to approve the minutes of the meeting held on July 16, 2019.

V. ASSOCIATED ADMINISTRATORS, LLC REPORT

A. Pension Applications – INTERIM ACTIONS

Ms. Cochran reported that the Trustees, via electronic poll on August 23, 2019, approved two (2) pension applications per the report of August 23, 2019, which are annexed hereto as Exhibit "A."

MOTION was made, seconded and unanimously adopted to ratify the interim action of the Trustees to approve the two (2) pension applications listed on Exhibit "A."

B. Cash Operating Statement

Ms. Cochran submitted the Cash Operating Statement from July 1, 2018 through June 30, 2019. The report is attached hereto as Exhibit "B."

C. Disbursement Report

Ms. Cochran referred to the Authorization for Disbursements reports for the months of April, May, and June 2019. The reports are attached hereto as Exhibit "C."

MOTION was made, seconded and unanimously adopted authorizing the disbursements listed in Exhibit "C."

D. Delinquency Report

Ms. Cochran reviewed the report in detail. The report is attached hereto as Exhibit "D."

E. Withdrawal Liability

Ms. Cochran reviewed the report in detail. The report is included at the bottom of Exhibit "D."

F. Employer Contribution Rate Report

Ms. Cochran reviewed the report in detail. The report is attached hereto as Exhibit "E."

G. Active Members & Retirees Receiving Benefits

Ms. Cochran referred to the report for the period from January 2019 through June 2019. The report is attached hereto as Exhibit "F."

H. Administrative Manager's Report

Ms. Cochran reviewed the report in detail. The report is attached hereto as Exhibit "G."

I. Cyber Liability Insurance Renewal

Ms. Cochran referred to a Memorandum provided by Segal Select Insurance ("Segal Select") regarding Cyber Liability Insurance. The Memorandum is attached hereto as Exhibit "H." She noted that Segal Select requested proposals from Travelers and Beazley. Ms. Cochran said that Segal Select recommended the policy with Travelers at the $1 million aggregate, based on the broadened scope of coverage, competitive premium, and continuity of coverage.

MOTION was made, seconded and unanimously adopted approving the recommendation of Segal Select to approve Travelers proposal at the $1 million aggregate for an annual premium of $1,973.00 for the period October 4, 2019 through October 4, 2020.

J. Culinart Withdrawal Liability

Ms. Cochran reported that Culinart has continued to send monthly payments of $15,690.00.

K. Retiree Affidavit Forms

Ms. Cochran reported that the first request for information was mailed to retirees on August 13, 2019 and the second mailing was sent on September 25, 2019.

VI. COUNSEL REPORT

Ms. O'Leary referred to her memo dated October 14, 2019 and reported on the following two matters.

A. CulinArt, Inc.

Ms. O'Leary stated that, as previously reported, the Fund assessed CulinArt, Inc. with withdrawal liability of $3,207,145. She explained that because CulinArt did not request a review of the assessment by September 16, 2019, it has now waived any defenses it may have had to the assessment. She explained that CulinArt's payment schedule requires payment of $15,690 per month for 240 months, with the final payment due on June 1, 2039, and that, if it makes each monthly payment for the duration of the payment schedule, it will have paid a total of $3,765,600.

Ms. O'Leary reported that, as previously discussed, CulinArt has expressed interest in settling this matter for a lump sum payment. She referred to a worksheet prepared by Horizon which showed the present value of the 20-year monthly payment stream based on interest rates ranging from 0.0% to 7.5%. She noted that, as shown on the Horizon worksheet, the present value number ranges from a high of $3,765,600 at a 0.0% interest rate to $1,966,710 at a 7.50% interest rate.

Ms. O'Leary reviewed the status of negotiations to date, stating that, at the July 16th meeting, the Trustees authorized applying a 3% discount rate which equated to a lump sum payment of $2,837,978. She stated that, in response to this offer, CulinArt has offered to pay $2,250,000 (less the monthly payments made at the time of settlement), which equates to somewhere between a 5.5% discount rate ($2,296,126) and a 6% discount rate ($2,206,244). She noted that, as of now, there is a $587,978 difference between the Fund's and CulinArt's positions.

The Trustees reviewed a report entitled "Withdrawal Liability Analysis" which was prepared by SEI and which includes various probability graphs and tables that are intended to provide an overview of the range of possible outcomes based on different lump sum payments.

After an extensive review of SEI's analysis, and all the other relevant factors,

MOTION was made, seconded and unanimously adopted to authorize applying a 3.5% discount rate which equates to a lump sum payment of $2,715,729.

B. <u>College of New Rochelle ("CNR")</u>

Ms. O'Leary reported that, as the Trustees are aware, the Fund has assessed CNR withdrawal liability of $3,972,338. She stated that CNR also owes the Fund $135,431.40 in retroactive contributions due under its recently ratified collective bargaining agreement and $588.84 in late fees. She reported that, as expected, CNR filed a petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. She reviewed some of the financial information included in the filings to date in the bankruptcy case. She stated that, based on the amount of secured debt, she does not expect there to be any significant recovery available for unsecured creditors such as the Fund. She stated that, based on CNR's filings, the Fund appears to be the largest unsecured creditor and should seek to be apointed to the creditors' committee. She asked the Trustees to consider hiring a law firm that specializes in bankruptcy work to review whether there are any other options for maximizing collection in the bankruptcy proceeding. She stated that she works closely with other clients with Virginia & Ambinder, LLC ("V&A"), a Manhattan-based law firm which specializes in collection and bankruptcy work for multiemployer funds. She stated that she was comfortable recommending that the Trustees retain V&A although she added that other firms could be considered as well. She stated that she has spoken to V&A and that it offered a partner rate of $500 per hour which she stated is very reasonable for firms practicing in the Southern District of New York. The Trustees agreed that the retention of V&A was prudent. After discussion

MOTION was made, seconded and unanimously adopted to retain Virginia & Ambinder, LLC to represent the Fund in the CNR bankruptcy.

VII. NEXT MEETING DATE/ADJOURNMENT

A regular meeting of the Board of Trustees is scheduled for Tuesday, January 14, 2020 at 9:15 a.m. via conference call. With no further business to come before the Board, the meeting was adjourned at 11:36 a.m.

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Union Trustee Employer Trustee

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Union Trustee Employer Trustee

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Union Trustee

Exhibits:

A – Interim Pension Applications

B – Cash Operating Statement

C – Authorization for Disbursements

D – Delinquency and Withdrawal Liability Report

E – Employer Contribution Report

F – Active Members & Retirees Receiving Benefits Report

G – Administrative Manager's Report

H – Cyber Liability Memorandum