NMU Great Lakes Pension Fund
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MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
OF THE
NMU GREAT LAKES PENSION FUND
HELD ON JANUARY 20, 2006
NEW YORK, NEW YORK

The following Trustees and Alternate Trustee were present:

UNION TRUSTEES
C. Stewart – Co-Chair
T. Simpkins

EMPLOYER TRUSTEE
L. Ferry – Co-Chair (by teleconference)

ALTERNATE UNION TRUSTEE
R. Lioeanjie

Also present were:

S. Boyle – The Segal Company
J. Dougherty - Associated Administrators, LLC
S. Kalban - Fund Counsel
M. Lotruglio - Quan-Vest Consultants, Inc.
A. Prough – The Segal Company
S. Seide – The Segal Company
C. York – BP America, Inc. (by teleconference)

I. CALL TO ORDER

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

II. TRUSTEES

Mr. Dougherty reported that he received a letter dated July 15, 2005, from Mr. Frances LaFleur, Senior Attorney, BP Corporation North America, Inc., confirming the resignation of former Employer Trustee and Co-Chairman David Chandler from the Board of Trustees as of July 1, 2005, and the appointment of Ms. Lynette Ferry, Senior Investment Manager, Finance – Trust Investments, BP America, Inc., to the positions of Employer Trustee and Co-Chair replacing Mr. Chandler, effective the same date.

III. Status of the Fund

Mr. Lioeanjie noted the Fund's steadily declining assets and asked the professional advisors to report on the Fund's status and expected future. Mr. Kalban noted as follows. Approximately 12 years ago there were efforts to merge the Fund, but those efforts were unsuccessful because the Trustees of a prospective merger candidate believed that they might breach their fiduciary responsibilities if their fund assumed this Fund's liabilities. Approximately 10 years ago The Segal Company ("Segal"), at the Trustees' direction, investigated whether insurance contracts may be purchased to cover benefit liabilities, but the assets of this Fund were insufficient for such purpose. Mr. Mark Lotruglio of Quan-Vest Consultants, Inc. ("Quan-Vest"), noted as follows. Since there are no Employer contributions being paid into the Fund, the Fund's sole source of income is investment earnings. Segal has projected that earnings may provide sufficient income to continue the operation of the Fund through the next 8 to 9 years, but any downturns in the securities markets could significantly reduce that projection. Mr. Steven Seide of Segal noted that the actuarial present value of accrued benefits is significantly greater than the Fund's market value of assets, and that it is reasonably projected that assets will be depleted by 2014.

There followed a discussion of the eventual takeover of the Fund by the Pension Benefit Guarantee Corporation ("PBGC"). Mr. Seide was asked whether there would be any advantage to requesting the PBGC to take over the Fund at this time. Mr. Seide said that his experience has been that the PBGC would not take over the Fund at this point, even though the Fund would have a greater level of assets, rather than later when the Fund's financial condition would be critical. He discussed the financial condition of the PBGC and said that, again, in his experience, the agency would direct this Fund to continue in operation for as long a time as possible before the agency would either take it over or fund its benefits and expenses.

Following additional discussion, it was determined that the Trustees were following the only reasonable course of action available to them at this time and that they were satisfying their fiduciary responsibilities in doing so.

IV. MINUTES

A. Board Meeting, June 24, 2004

Following the Trustees' review and discussion of the subject minutes, on Motion made and seconded, the Trustees unanimously voted approval of the following resolution:

> RESOLVED that the minutes of the meeting of the Board of Trustees held June 24, 2004, are approved as written.

B. Investment Committee Meeting, January 5, 2006

Following the Trustees' review and discussion of the subject minutes, on Motion made and seconded, the Trustees unanimously voted approval of the following resolution:

> RESOLVED that the minutes of the meeting of the Investment Committee held January 5, 2006, are approved as written.

It was noted that in the meeting the Investment Committee made three recommendations to the Board of Trustees, and that it is appropriate for the Board to act on those recommendations at this time.

V. <u>Engagement of INVESCO as Investment Manager and Custodian</u>

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

> RESOLVED that, upon the recommendation of the Investment Committee, the services of Alliance Bernstein Institutional Investment Management be terminated and INVESCO be engaged by the Fund as replacement Investment Manager as soon as practicable in accordance with INVESCO's <u>Presentation</u> dated January 5, 2006.

VI. <u>Authorization of Administrative Manager</u>

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

> RESOLVED that, upon the recommendation of the Investment Committee, the Administrative Manager is authorized, upon the advice of the Investment Consultant, to withdraw money needed for Fund benefits and administrative expenses from the two fund accounts to be managed by INVESCO in such amounts necessary to maintain the then-current target asset allocation.

VII. <u>Quan-Vest Consultants, Inc. – Minimum Annual Fee</u>

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

> RESOLVED that, upon the recommendation of the Investment Committee, the Investment Management Consulting Agreement between the Fund and Quan-Vest Consultants, Inc., be and hereby is amended to provide for a minimum annual fee of $4,800 effective and retroactive to January 1, 2006.

VIII. INVOICES

Mr. Dougherty presented a list of invoices dated January 20, 2006.

The Trustees reviewed the list and determined that all invoices reported thereon represented proper Fund expenses.

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

> RESOLVED that the list of invoices dated January 20, 2006 is approved for payment.

IX. INVESTMENT CONSULTANT REPORT

A. Mr. Lotruglio distributed copies of the Investment Consultant's Investment Performance Report for the Twelve Months Ending December 31, 2005, and he reviewed it as follows in rounded numbers. The beginning cost or book value as of January 1, 2005 was $2,180,000. Withdrawals during the period were $620,000. Investment income did not increase the cost value during the period. Realized gains increased the total cost value by $190,000. The closing book value as of December 31, 2005 was $1,750,000, for a decrease of the cost value of $430,000 over the period. The beginning market value as of January 1, 2005 was $2,910,000. The total net investment return for the period was $140,000, resulting in a time weighted return of 5.6%. The closing market value as of December 31, 2005 was $2,430,000, for a net decrease (including withdrawals) of the market value of $480,000 over the period.

On March 31, 1998, the asset allocation was fixed income securities at 90.7% and equities at 9.3%. On December 31, 2004, the asset allocation was 60.7% fixed income securities, 39.2% equities and 0.1% cash and cash equivalents. On December 31, 2005, the asset allocation was 55.6% fixed income securities and 44.4% equities.

Mr. Lotruglio reported the total portfolio's and the equity and fixed income segments' rates of returns over various periods, compared with those of other indices for the same periods. For the twelve months ending December 31, 2005, the equity market value was $1,077,773, the fixed income market value was $1,351,584, the total market value was $2,429,357, total investment return was $141,552, net withdrawals were $620,048, income was $12, and realized gains were $191,697.

B. Investment Policy Statement, January 19, 2006

Mr. Lotruglio noted that, upon the recommendation of Quan-Vest made and discussed during the Investment Committee meeting held January 5, 2006, the Committee directed the Investment Consultant and Fund Counsel to revise and restate the Investment Policy Statement adopted August 20, 1997, and he presented and reviewed the document.

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

> RESOLVED that the Investment Policy Statement dated January 20, 2006, is approved and adopted.

The Trustees thanked Mr. Lotruglio for his report and excused him from the balance of the meeting.

X. <u>Retiree Request</u>

Mr. Dougherty reviewed a letter December 26, 2005, received from retiree Jose Cobo, SSN 560-24-8708. He noted that by Board action pensioners in pay status living outside the United States are required to annually obtain and provide to the Fund written verifications of their signatures by their local U.S. Consulate office. He noted that the Trustees adopted this requirement, based on the same requirement of the Deep Sea Plan, as a means of regularly verifying that such pensioners are alive. In his letter, Mr. Cobo requested that he be permitted to have his signature verified by a local Notary Public, instead of by the United States Embassy in Madrid, Spain, which is located a considerable distance from his residence, and he detailed the difficulties which he encounters traveling to the Embassy.

Following discussion of the request, the Trustees determined that signature verification by a Notary Public is not sufficient for the purpose of this requirement, and that signatures must be verified by U.S. federal government authorities. Mr. Stewart noted that Mr.Cobo travels to the U.S. Embassy, while the procedure requires verification by only a local U.S. Consulate office.

The Trustees directed Mr. Dougherty to inform Mr. Cobo that it is not necessary for him to obtain the verification by the U.S. Embassy, and that as an alternative he may obtain it by a local U.S. Consulate office, which presumably is located closer to his residence and will be more convenient to him.

XI. COUNSEL REPORT

A. Change of Name of Participating Union

Mr. Kalban noted that, during the previous Board meeting, it was determined that the merger of the National Maritime Union of America, AFL-CIO, with the Seafarers International Union, AFL-CIO, required amendments to the Fund's trust document and plan document, changing the name of the Union to the merged entity, and he presented and reviewed the two amendments.

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

> RESOLVED that the Amendment of the NMU Great Lakes Pension Trust Declaration and the Amendment of the NMU Great Lakes Pension Plan, changing the definition of "Union" to the following, are approved and adopted effective January 20, 2006: "Union means the National Maritime Union of America, AFL-CIO, and effective June 4, 2001, the Seafarers International Union – Atlantic, Gulf, Lakes and Inland Waters/NMU, AFL-CIO, and any predecessors and successors thereto."

At Mr. Kalban's request, the Trustees called for an Executive Session with himself and Mr. Dougherty and excused the Segal representatives.

B. Mr. Kalban noted that he had informed the members of the Investment Committee of the following matter during the Committee meeting held January 5, 2006, and had reviewed the facts of the matter to that date. He informed the Trustees that a lawsuit was filed against the Fund by the surviving spouse of deceased retiree Alonzo Evans, SSN 369-22-4798, and he recounted the facts of the lawsuit and the pertinent developments.

At Mr. Kalban's request, the Trustees excused Mr. Dougherty from the Executive Session.

Following further discussion, Mr. Dougherty was recalled to the Executive Session.

Mr. Kalban presented Mr. Dougherty with a letter, dated January 20, 2006, directed to his attention as a representative of the Administrative Manager. Mr. Kalban requested that the Administrative Manager respond to the letter at the earliest opportunity.

The Trustees concluded the Executive Session. The Segal representatives were recalled, and the meeting was reconvened.

XII. ACTUARY REPORT

Mr. Seide reviewed the Actuarial Valuation and Review as of June 30, 2004 as follows. The number of non-retired participants eligible for immediate or deferred vested benefits decreased from 59 as of June 30, 2003 to 52 as of June 30, 2004. The number of pensioners (retirees and beneficiaries) in pay status decreased from 245 as of June 30, 2003 to 214 as of June 30, 2004. Five new non-disability pensions and 2 survivor benefits were awarded during the plan year ended June 30, 2004, with an average monthly pension amount (after reduction for any optional form of payment) of $127, compared to 1 new non-disability pensions and 2 survivor benefits awarded during the plan year ended June 30, 2003 with an average monthly pension amount (after reduction for any optional form of payment) of $179.

For the plan year ended June 30, 2004, net investment income was $167,734 or an annual rate of return of 5.21%, compared to the prior plan year's net investment income of $231,418 or an annual rate of return of 6.77%. For the plan year ended June 30, 2004, administrative expenses were $43,169, compared to administrative expenses of $39,590 during the prior plan year, and benefit payments were $380,224, compared to benefit payments of $402,815 during the prior plan year. Net assets at market value decreased $255,659 from $3,412,463 as of June 30, 2003 to $3,156,804 as of June 30, 2004.

Mr. Seide noted that ERISA requires the Trustees to annually determine whether the value of nonforfeitable benefits exceeds the value of Fund assets, such assets to include withdrawal liability due and owing to the Fund. He said that ERISA further defines nonforfeitable benefits as (1) for current retirees, benefits in pay status as of, in this case, June 30, 2004, and (2) for future retirees, all vested benefits accrued as of June 30, 1994, the date of termination of the Plan, payable at the earliest eligible retirement age. He reported that, pursuant to PBGC regulations, as of June 30, 2004 the Fund's present value of accrued vested benefits was calculated to be $4,047,322, and the market value of assets was calculated to be $3,156,804. He reported that therefore as of June 30, 2004 the present value of accrued vested benefits exceeds the value of Fund assets by $890,518. He said that, again pursuant to PBGC regulations, as of June 30, 2004 the Plan is determined to be solvent, because the market value of assets as of June 30, 2004 is sufficient to pay all anticipated pension benefits which would be due and payable during the subsequent plan year (the plan year ending June 30, 2005), even if all eligible participants were to retire during the year. He further reported that, based on actuarial assumptions, as of June 30, 2004, it is anticipated that the Plan's assets will be sufficient to pay benefits through the year ending June 30, 2013, but will be depleted sometime during the year ending June 30, 2014.

Ms. Ferry asked for the estimated production date of the valuation as of June 30, 2005. Mr. Seide responded that approximately six to eight weeks are required to produce a valuation after receipt of the necessary financial information from the Fund auditor. Mr. Dougherty said that the auditor completed the fieldwork, and that he will contact him for an estimated date for delivery of a draft of the audit and will report the date to Ms. Boyle.

XIII. <u>MISCELLANEOUS CORRESPONDENCE</u>

A. Mr. Dougherty reported that copies of the Summary Annual Report for the Plan Year ending June 30, 2004 were distributed to the participants in a timely manner by first-class mail. He noted that copies of the SAR were mailed by transmittal letters to Mr. Stewart for distribution to the Union membership as may be requested, to Ms. Ferry and Mr. Grammenos for distribution as may be requested and for posting on boats on which the covered employees work, and finally to the Trustees and Fund Counsel and the Consultant for their files.

B. Mr. Dougherty reported that he mailed the Plan’s 2004 (Plan Year Ending June 30, 2005) PBGC Form 1 and annual premium in a timely manner via certified mail – return receipt requested.

C. He reported that he mailed the Plan’s 2003 (Plan Year Ending June 30, 2004) IRS Form 5500 and attachments thereto to the PWBA in a timely manner via certified mail - return receipt requested.

D. He reported that he mailed bound copies of the Financial Statements as of June 30, 2004 to the Trustees, Fund Counsel and the Consultant by his letter dated April 16, 2005.

E. He reported that he mailed copies of the Investment Consultant’s annual disclosure letter dated January 26, 2005 to the Trustees and Fund Counsel for their records. He noted that no action on the letter was required or taken.

XIV. <u>ADMINISTRATIVE MANAGER REPORT</u>

Mr. Dougherty reviewed the administrative manager report for the period April-June 2004: interest and dividends of $973, transfer of $300,000 from the investment manager for operating cash purposes, total expenses of $99,772 including benefits of $90,669, and the resulting net cash flow surplus of $201,201.

He reviewed the administrative manager report for the period July-September 2004: interest and dividends of $1,143, total expenses of $110,923 including benefits of $90,435, and the resulting net cash flow deficit of $109,780.

He reviewed the administrative manager report for the period October-December 2004: interest and dividends of $1,054, total expenses of $98,962 including benefits of $89,198, and the resulting net cash flow deficit of $97,908.

He reviewed the administrative manager report for the period January-March 2005: interest and dividends of $822, transfer of $300,000 from the investment manager for operating cash purposes, total expenses of $106,599 including benefits of $87,397, and the resulting net cash flow surplus of $194,223.

He reviewed the administrative manager report for the period April-June 2005: interest and dividends of $2,418, total expenses of $93,228 including benefits of $83,203, and the resulting net cash flow deficit of $90,810.

He reviewed the administrative manager report for the period July-September 2005: interest and dividends of $2,107, total expenses of $95,752 including benefits of $82,402, and the resulting net cash flow deficit of $93,645.

XV. NEXT MEETING DATE AND LOCATION

The Trustees left the date and location of the next Board meeting open, subject to the call of the Co-Chair.

XVI. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,

John A. Dougherty
Senior Account Executive
Associated Administrators, LLC

JAD/eam
(Orig. 01/26/2006)