DAVID H. COAR, ESQ.
Arbitration and Mediation

November 7, 2017

Via UPS Next Day

The Honorable Ruben Castillo
Chief United States District Judge
United States District Court
Northern District of Illinois
Eastern Division
219 South Dearborn Street
Chicago, Illinois 60604

Re: Quarterly Report of Independent Special Counsel, *Acosta v. Estate of Frank E. Fitzsimmons, et al.*, No. 78 C 342 (N.D. Ill., E.D.); *Acosta v. Robbins, et al.*, No. 78 C 4075 (N.D. Ill., E.D.); and *Acosta v. Dorfman, et al.*, No. 82 C 7951 (N.D. Ill., E.D.)

Dear Chief Judge Castillo:

As you know, prior to his retirement, Judge Milton Shadur was assigned to the above-referenced cases involving the Central States Pension and Health and Welfare Funds. Because these are closed cases I understand that there has not been an immediate need to reassign them to another judge. However, I was appointed by Judge Shadur as the Independent Special Counsel under the Consent Decrees entered in those cases. The Consent Decrees contemplate that I periodically report to the Court concerning the Central States Funds and their efforts to comply with the Consent Decrees. This letter comprises my report on activities at the Central States Funds during the second quarter of 2017 and I request that you forward this report to the judge who is ultimately assigned to these Central States Consent Decree cases.

I realize that the judge to whom these cases are assigned may wish to receive additional briefing concerning these cases and the activities of the Central States Funds by way of a status conference or other mechanism. I will of course be available for that purpose.

Office Space

The Funds' Staff has reported that the Funds' existing lease at their office at 9377 West Higgins Road in Rosemont, Illinois will expire at the end of 2019. The Funds have approximately 650 full-time employees at their offices near the Chicago O'Hare Airport in Rosemont, and the Funds occupy approximately 175,000 square feet of office space at that location.

In anticipation of the expiration of the lease, the Funds' Staff has, over the course of the last three years, been consulting with Jones Lang LaSalle, a Chicago-based real estate broker and consultant, and with the Whitney Architects firm. At the March and May 2017 Board of Trustees Meetings Jones, Lang LaSalle reviewed all potential options in the Chicago O'Hare Airport submarket with respect to the Funds' future office space requirements, including a lease renewal at the Funds' current address, the negotiation of a lease at another location, and the purchase and / or development (for either purchase or lease) of an office building. The Trustees then authorized Staff to execute a letter of intent and related documents with Glenstar, a commercial real estate developer, for the construction and purchase by the Health and Welfare Fund of a new "Class B" office building located at 8647 Higgins Road not far from the Funds' existing offices and in proximity to the Chicago O'Hare International Airport. The Trustees concluded, on the basis of the advice received from their expert consultants, that this arrangement is the most economical and efficient solution to the Funds' office space requirements in comparison to other possible options, including a renewal of the lease on the building at the 9377 West Higgins building currently occupied by the Funds. Nearly all the employees of the Health and Welfare Fund are also employed by the Pension Fund, and under the plan approved by the Trustees, the Health and Welfare Fund will lease space in the new building to the Pension Fund, with the terms of the lease between the two Funds to be established by an independent third-party consultant with knowledge of commercial real estate values in the O'Hare submarket.

In addition, at the May 2017 Board Meeting the Trustees received and considered written opinions and oral presentations from representatives of the Groom Law Group. The Groom lawyers concluded that the contemplated real estate transactions would be in compliance with all applicable ERISA requirements, including the ERISA obligations to act prudently with respect to the assets of the Fund, to minimize administrative expenses as much as reasonably possible and to avoid non-exempt prohibited transactions.

On October 17, 2017 the Health and Welfare Fund closed on the purchase of the property located at 8647 Higgins Road, and construction of the new building is scheduled to begin within a few weeks of that date.

Over the course of the last five months the Department of Labor has requested, and the Central States Funds have provided, various documents relating to these real estate transactions and the Health and Welfare Fund's decision to pursue the 8647 Higgins Road option. On October 13, 2017 I also attended a meeting between the Department of Labor and representatives of the Central States Funds held at Labor's offices in Washington, D.C. to review the current status of the real estate / office space issues. The Department is still reviewing the transaction.

Pension Fund

PPA-Related Issues

As explained in previous reports, the multiemployer plan funding rules of the Pension Protection Act of 2006 ("PPA") became effective on January 1, 2008. On March 24, 2008, the Fund's actuary certified the Fund to be in "critical status" under the PPA for the 2008 plan year; the actuary has made the same certification with respect to subsequent plan years, except that in March 2015, the actuary certified the Fund to be in the new category of "critical and declining" created by the Multiemployer Pension Reform Act of 2014 (discussed below). As a result of the initial critical status certification, the Trustees adopted a "rehabilitation plan" as the PPA requires for critical status plans. In broad outline, the Rehabilitation Plan approved by the Trustees contains a "Primary Schedule," which requires each contributing employer to agree to five years of 8% annual contribution increases (7% if the increases began in 2006) in order to maintain current benefit levels for the affected bargaining unit. The PPA also requires that a rehabilitation plan contain a "Default Schedule" which must provide for the reduction in what the PPA terms "adjustable benefits"; the Fund's Rehabilitation Plan mandates 4% annual contribution rate increases with respect to the Default Schedule. ("Adjustable benefits" under the PPA generally include all benefits other than a contribution-based retirement benefits payable at age 65.) The PPA also provides that if the bargaining parties have not chosen any of the schedules established by a rehabilitation plan (*i.e.*, the Primary or Default Schedule) within 180 days following the expiration of the parties' last labor agreement, the Default Schedule will be imposed as a matter of law. In addition, the Rehabilitation Plan provides that that the members of bargaining units who agree to a withdrawal from the Pension Fund, or otherwise acquiesce or participate in a withdrawal -- an event termed a "Rehabilitation Plan Withdrawal" -- also incur a loss of their adjustable benefits.

As was also explained in my previous reports, the PPA requires the Trustees to engage in an annual process of considering whether it is appropriate to update the Rehabilitation Plan in any fashion. Last December during the 2016 Rehabilitation Plan update process the Trustees noted that because the Fund was facing insolvency (projected to occur in 2025), the PPA required that they take "reasonable measures" to forestall the insolvency. ERISA §305(e)(3)(A)(ii). During the 2016 Rehabilitation Plan update process the Trustees decided to add a new schedule to the Rehabilitation Plan to address situations in which "hybrid" employers (*i.e.*, employers that have qualified for treatment under the hybrid method of calculating withdrawal liability; *see* pp. 14 - 15 below) who have fulfilled the participation guarantees made in order secure treatment under the hybrid method may qualify for a *reduction* in their pension contributions rates. The Fund's Staff reminded the Trustees that in order to secure treatment under the hybrid method, employers must pay their existing withdrawal liability, and guarantee that they will continue to participate in the Fund at a specified level of employment and for a specified number of years. However, Staff also reported that some of the hybrid method employers are nearing completion of their participation guarantee periods. Further, Staff also reported that some of these employers may require additional incentives to continue participation in the Fund after fulfillment of their participation commitments because they will be free to bargain-out of participation in the Fund at the end of their current labor agreements without threat of withdrawal liability. Therefore, as part of the December 2016 Rehabilitation Plan update, the Trustees approved a new schedule

to the Rehabilitation Plan under which, on a case-by-case basis, the Trustees may approve pension contribution rate reductions with respect to hybrid method employers, provided the employers (1) have completed all participation guarantees or commitments associated with their hybrid status and (2) can demonstrate to the satisfaction of the Trustees that their continued participation in the Fund under a renewed participation guarantee and collective bargaining agreement, and at a reduced pension contribution rate (to be determined in each case by the Trustees), is likely to generate positive net cash flow for the Fund.

Under this new Rehabilitation Plan schedule (deemed a "Special Schedule: Qualifying New ('Hybrid Method') Employers") all benefits for the affected bargaining units are to be preserved to the same extent as under the Primary Schedule.

During the December 2016 Rehabilitation Plan update process, the Trustees concluded that any further or additional modifications in the existing Rehabilitation Plan Schedules (*i.e.*, beyond the Special Schedule described above and those benefit modifications and contribution rate requirements that the Trustees previously approved) would entail too great a risk of irreparable harm to a large number of contributing employers, or would otherwise risk prompting an undue and harmful number of withdrawals from the Fund and declines in active participation.

However, in the 2016 Rehabilitation Plan update process, the Trustees approved continued implementation of (i) the Distressed Employer Schedule (which the Trustees believe accommodated the special circumstances presented by YRC, Inc. in a manner that was actuarially favorable to the Fund; *see* pp. 15 – 16 below), (ii) the hybrid withdrawal liability method (pp. 14 - 15 below), and (iii) the benefit modifications, contribution rate increases and other features of the Rehabilitation Plan that have been previously adopted (*e.g.*, the Trustees raised the minimum retirement age to 57, effective as of June 1, 2011).

The PPA *requires* the Trustees to consider updates to the Rehabilitation Plan on at least an annual basis, but they are authorized to approve changes to the Plan more frequently if they deem it approprate. At the March 2017 Meeting the Board of Trustees approved an amendment to the Rehabilitation Plan under which employers and bargaining units that are subject to current collective bargaining agreements (1) that contain no wage increases, and (2) that require pension contribution rate increases consistent with the Fund's Primary Schedule, may submit successor agreements to the Fund that will be treated as qualifying for Primary Schedule benefits, even if those successor agreements do *not* contain any additional contribution rate increases that would otherwise be required under the Primary Schedule. This rule impacts approximately 8% of the Fund's population of active participants. The Trustees approved this amendment to the Rehabilitation Plan based on their finding that continued insistence on the contribution rate increases has caused the wages for the groups in question to be frozen and that this in turn has caused a disproportional decline in active participation among these groups. The Trustees also concluded that the decline in participation among the groups subject to wage freezes could be reversed or slowed by removing the downward pressure on wages created by the demand for pension contribution rate increases -- at least for the duration of one successor 3 to 5 year collective bargaining agreement for each of the groups currently experiencing frozen wages. The Trustees also determined that the reversal of the current disproportionately high attrition trends experienced by the groups whose wages

have been frozen will be more valuable to the Fund than the contribution revenue that will be lost due to lack of contribution rate increases from those groups during the next contract cycle.

Although it appears the Pension Fund has reported some progress in securing increased employer contributions and in adjusting benefits as required of "critical and declining status" plans under the PPA, the Fund suffered serious investment losses in the general stock market and economic downturn that commenced in 2008 (and before that, in the 2002 – 2003 market decline). In more recent years, the Fund has enjoyed significant investment gains. For example, the Fund enjoyed a composite rate of return of 8.5% for calendar year 2016. Nevertheless, the asset level as of June 30, 2017 of $15.3 billion is approximately $10 billion below the value of assets held by the Fund shortly before the commencement of the world wide stock market collapse in 2008. But the Fund's Staff reports that the continuing downward pressure on the Fund's assets is largely due to the Fund's current annual operating deficit of more than $2 billion per year -- meaning that in recent years the Fund has paid out more than $2 billion each year *more* in benefits than it has collected in contributions from employers.

Funding Issues Confronting Multiemployer Plans

According to the Pension Benefit Guarantee Corporation's ("PBGC") fiscal year 2016 Projections Report (published on November 16, 2016), it is more likely than not that the PBGC multiemployer guaranteed program will run out of money by the end of 2025. This means that the PBGC will have no financial resources to pay benefits to the Pension Fund participants if, as projected, the Fund also becomes insolvent at approximately the same time as the PBGC.

And according to an August 2016 report issued by the Congressional Budget Office ("CBO"), multiemployer pension plans in the United States have in the aggregate approximately $850 billion in pension obligations, but have only about $400 billion in assets. U.S. Congressional Budget Office, *Options to Improve the Financial Condition of the PBGC's Multiemployer Program* (August 2016).This CBO report also indicates that the present value of the combined projected claims of all multiemployer plans for financial assistance from the PBGC during the 2017-2036 period totals $101 billion. But the CBO also reports that since the PBGC is projected to become insolvent in 2025, that agency will only be able to satisfy a small portion of these claims.

Staff has also noted that including the Central States Pension Fund, four of the five largest Teamster multiemployer plans are currently in "critical and declining" status under the Multiemployer Pension Reform Act of 2014 ("MPRA") and are projected to become insolvent.

Multiemployer Pension Reform Act of 2014

As explained in my prior reports, it appears that in response to the funding issues impacting the PBGC and a number of multiemployer plans throughout the United States, in December MPRA was enacted. MPRA provides "critical and declining" multiemployer plans -- such as the Pension Fund -- with the option of requesting approval for a plan of benefit suspensions from the U.S. Department of Treasury. Any such benefit suspension plan (a) would be required to avoid the Fund's projected insolvency, but (b) may not contain benefit suspensions that are materially greater than those required to avoid the insolvency.

In addition, my prior reports explained that on September 25, 2015, the Pension Fund filed an application under MPRA with the U.S. Department of the Treasury requesting approval of a plan of benefit suspensions.

And as also indicated in my prior reports:

1. On May 6, 2016 the Department of Treasury denied the Fund's MPRA application.

2. Due to the passage of time (and the accompanying decline in the Fund's assets), and due to the new requirements of the recently published Treasury regulations governing MPRA applications, the Pension Fund Trustees have concluded that it is not possible for the Fund to submit a new or revised application or proposed suspension plan.

3. The Trustees have also resolved to continue to cooperate with Congress, regulatory agencies, unions, employers and private parties and organizations to search for a solution to the multiemployer pension funding problem.

It should be noted that on September 6, 2017 the Department of the Treasury approved an application under MPRA for the suspension of benefits submitted by the New York State Teamster Conference Pension Fund, one of the other multiemployer plans that has been projected to become insolvent. The Central States Pension Fund's Staff has indicated that the New York Teamster Fund's benefit suspension plan calls for an average pension benefit reduction of 29% per participant, while the application submitted by Central States and rejected by Treasury proposed benefit reductions that averaged 22% (with some proposed reductions for individual participants spiking above 50% due to the unique MPRA provisions applicable to Central States that effectively required the imposition of more severe reductions on certain participants who earned pension credit with employers other than United Parcel Service, Inc.). Further, although Treasury suggested in its May 6, 2016 letter denying Central States Pension Fund's MPRA application that the Fund's assumption relating to the rate of investment returns (7.5% per year) was too optimistic, the Fund's Staff advises that the New York Fund's application employed an identical rate of return assumption.

Current Legislative Proposals

The Pension Fund's Staff has briefed the Board of Trustees on recent (post-MPRA) legislative proposals intended to avoid the projected insolvency facing the Pension Fund and other multiemployer plans. These proposals have not yet been "dropped" as formal bills in the legislative process but various Senators, Congresspersons and their staffs have received briefings concerning these proposals:

1. *UPS Proposal.* Because of certain pension guarantees and promises of indemnity that UPS has provided to its Teamster workforce, the company has an interest in pension legislation that will permit the Central States Pension Fund, as well as other multiemployer plans, to avoid insolvency. UPS has proposed federal legislation involving low interest government loans for troubled multiemployer plans, along with 20% reductions in pension benefits for all multiemployer plan participants and

beneficiaries in those plans; the UPS proposal also calls for the creation of a risk reserve pool funded by unions, employers and participants to ensure repayment of the loans. The Pension Fund's actuary has modeled the UPS proposal and determined that it would likely allow the Fund to avoid its currently projected insolvency.

The Fund's Staff has indicated that the UPS proposal appears to offer the most viable solution to the multiemployer pension funding problem that has been put forward to date because it acknowledges that in the current political environment no proposed pension reform legislation has a significant chance of being enacted without embracing the concept of "shared pain" for all stakeholders.

2. *International Brotherhood of Teamsters ("IBT") / Senator Brown Proposal.* The Pension Fund's Staff advises that although it appears that a majority of the affected Teamster Local Unions and Joint Councils have indicated support for the UPS proposal, the IBT's General President and at least some members of the IBT Executive Board are supporting a proposal being advanced by Senator Sherrod Brown (Dem., Ohio). Senator Brown's proposal involves federally guaranteed loans to troubled multiemployer plans, with no requirement for pension reductions. Detailed legislative language encompassing this proposal has not yet been circulated but the Fund's actuaries advise, based on modeling of outlines of the proposed legislation prepared to date, that the Brown / IBT proposal is unlikely to allow the Fund to avoid its projected insolvency. Staff also is concerned that without a "shared pain" feature, this proposal has little chance of being enacted into law. Further, Staff believes that the IBT / Brown proposal may distract from and delay the effort to enact the UPS proposal. Due to actuarial and financial considerations, delay in enacting the UPS proposal, or some version of it, could undermine the ability of that proposal to avoid the Fund's projected insolvency, and the insolvencies projected for other multiemployer plans.

Asset Allocation

As indicated in my previous report, during the December 2016 Pension Fund Trustee Subcommittee Meeting, the Fund's Named Fiduciary, Northern Trust Investment, Inc. ("Northern Trust")[1], discussed an asset allocation plan which is designed to address the fact that -- in light of Treasury's denial of the Fund's MPRA application -- the Fund is currently projected to be insolvent within the next ten years. Northern Trust indicated that the intent of its allocation plan is to forestall the projected insolvency to the extent reasonably possible, with an emphasis on additional measures designed to protect the Fund's assets from market downturns. Northern Trust noted that asset protection has become especially important because under current projections there is a substantial risk that the Fund's assets would not have sufficient time to recover from any sharp market downturn prior to the Fund's projected insolvency. Therefore, Northern Trust's plan entails a gradually increased allocation of the Fund's assets to fixed income investments. Although this is largely an investment matter that the Consent Decree has placed under the exclusive control of the Named Fiduciary, the

[1] Formerly known as Northern Trust Company of Connecticut, which was in turn formerly known as Northern Trust Global Advisors, Inc.

Pension Fund's Trustees and their financial advisor have indicated that they concur with Northern Trust's asset allocation plan. However, as the Court is aware, implementation of certain aspects of the allocation plan required review by the Department of Labor and approval by this Court. As a result, the Fund and Northern Trust engaged in consultations with the Department of Labor concerning the asset reallocation plan and filed motions with the Court requesting approval of the features of the plan for which Court approval is required; in June 2017 the Court granted those motions.

Campbell Litigation

On April 25, 2016 Doris Campbell and several other participants in the Pension Fund filed an action alleging breach of fiduciary duty against the Fund and its Trustees. *Campbell v. Whobrey*, No. 16-CV-04631 (U.S. Dist. N.D. Ill.). The *Campbell* plaintiffs are all present or former employees of The Kroger Co. ("Kroger"), a significant contributing employer to the Fund. The *Campbell* complaint alleges that the Pension Fund defendants acted imprudently in considering (or failing to consider) a proposal that Kroger had made to the Pension Fund concerning the timing of Kroger's planned withdrawal from the Pension Fund and the resolution of the company's resulting withdrawal liability.

The *Campbell* case was assigned to Judge James Zagel, but on May 3, 2016, the Pension Fund defendants filed a motion with this Court requesting reassignment of *Campbell* as a case related to the Pension Fund consent decree case (No. 78 C 342). On May 6, 2016, this Court (through Judge Shadur) denied the reassignment motion for the reasons stated in open court.

The *Campbell* plaintiffs filed a motion for a preliminary injunction requesting, along with other relief, the appointment of an independent fiduciary to consider the Kroger proposal relating to that company's planned withdrawal from the Pension Fund, and presumably to negotiate with Kroger on behalf of the Fund concerning the terms of Kroger's planned withdrawal. That motion was briefed and argued before Judge Zagel, who denied the motion on June 30, 2016 on the grounds that (1) the plaintiffs had not shown a probability of success on the merits (2) they had requested a form of final, irrevocable relief in their preliminary injunction motion, and (3) they had failed to show irreparable harm.

The Pension Fund contends that the *Campbell* complaint is baseless. The Pension Fund's Staff also reports that the action is being controlled and funded by Kroger pursuant to an agreement with the International Brotherhood of Teamsters (or its affiliates) in an effort to gain leverage in negotiations with the Fund. In any event, the Fund's Staff reports that it has provided the actuarial data requested by Kroger in order to permit the company to analyze various settlement alternatives. In addition, Staff reports that it presented a counter - proposal to Kroger on July 15, 2016 and met with Kroger representatives on July 18 to discuss that proposal. Staff also reports that Kroger rejected the Fund's proposal at the July 18th meeting, and did not offer a counter - proposal at the time of the meeting. However, Staff reports that on October 21, 2016 Kroger did submit a counter-offer to the Fund's July 15, 2016 proposal, and that on November 4, 2016 the Fund submitted a further revised offer to Kroger. As of this date, Kroger has not responded to the Fund's November 4th proposal.

On October 27, 2016 the *Campbell* case was reassigned from Judge Zagel to Judge Edmond Chang. On June 30, 2017 Judge Chang granted in substantial part the Pension Fund's motion for a protective order that sought to limit discovery to the administrative record that was before the Trustees when they made their decisions concerning Kroger's withdrawal liability settlement proposals. Judge Chang also held in his June 30 ruling that the Trustees' decisions concerning the Kroger proposals should be reviewed by the Court under the deferential "arbitrary and capricious" standard.

On October 16, 2017 the Campbell plaintiffs filed a motion for leave to file an amended complaint alleging that the Pension Fund's Trustees have committed fiduciary breaches not only with regard to their responses to the Kroger proposals that occurred prior to the filing of the original complaint in April 2016 but also with regard to the handling of the more recent negotiations with Kroger. The Pension Fund defendants are opposing the filing of the amended complaint, and/or seeking dismissal of it; those issues are currently being briefed before Judge Chang.

Government Accounting Office Review

In response to a February 1, 2016 request by Senator Charles Grassley (R-Iowa), the Government Accounting Office (GAO) has commenced a review of the Department of Labor's (DOL) oversight of the Pension Fund under the consent decree. On June 20, 2016 a number of members of Congress also requested that the GAO review the Pension Fund's investment activities, and the GAO has acknowledged that it will undertake that review as well.

As I previously reported, the Fund's Staff advises that on June 15, 2016, Staff met with representatives of the GAO in order to review the history and the background of the consent decree, including the various amendments to the consent decree that have been entered since that order was originally entered on September 22, 1982. The GAO also made inquiries during this meeting concerning the appointments of named fiduciaries and independent special counsels under the consent decree. Subsequently, the representatives of the GAO requested additional documentation from the Fund relating to the administration of the consent decree, investment procedures and investment performance and fees. Staff advises that all documents referenced in the GAO's original requests have been produced and that the Fund has, produced, or is in the process of producing, materials responsive to supplemental requests more recently submitted by the GAO.

On October 19, 2016, the GAO conducted a telephone interview with key Pension Fund Staff Members as a follow-up to the initial June 2016 meeting with Staff. The Pension Fund's Staff advises that the October 2016 telephonic interview focused on the reasons for (and consequences of) the Pension Fund's decline in active participation, the responses of the IRS and the DOL to the Fund's financial difficulties and efforts taken by the Fund (including the Named Fiduciaries and the Trustees) to improve or stabilize the Funds financial condition. Staff also advises that the GAO interviewed the Fund's Employer Trustees on February 14, 2017, and interviewed the Employee Trustees on March 14, 2017. During March 2017 the GAO also conducted interviews of Northern Trust and of Professor John Heaton of the University of Chicago Booth School Of Business, who has served as a financial advisor to the

Board of Trustees. On July 10, 2017 the GAO conducted additional interviews of the Fund's Staff, Northern Trust and Professor Heaton.

The Fund's Staff best estimate at this time is that the GAO will release its reports by the end of this year or early in 2018.

EBSA Review

On May 1, 2017 the Pension Fund received a request for review from the Chicago Office of the Department of Labor's Employee Benefit Security Administration ("EBSA"). This was essentially a request for documents focusing upon the bond trading activities of Logan Circle Partners, L.P., one of the asset managers retained by Northern Trust (as named fiduciary of the Fund). Staff advises that all requested documents and information have been provided to the EBSA. The agency has indicated that it does not require any further documents or information on this subject from the Fund at this time.

However, the Pension Fund's Staff has indicated that on August 2, 2017 EBSA representatives met with Northern Trust representatives to discuss the purchases by Logan Circle on behalf of the Pension Fund of bonds with a par value totaling approximately $11.6 million issued by Caesar's Entertainment Corporation ("Caesar's"). Caesar's is a publicly traded company that owns and manages more than 50 casinos across the globe. Logan Circle began purchasing the Caesar's bonds in 2012, but in 2015 Caesar's filed a Chapter 11 bankruptcy; Caesar's emerged from bankruptcy, but the Pension Fund incurred a net loss of approximately $570,000 on the Caesar's bonds. The EBSA representatives' interest in this matter was apparently prompted by the Las Vegas-centered and organized crime affiliated investment activities of the Pension Fund during 1960s or 1970s, and perhaps by a concern that Logan Square's purchase of the Caesar's bonds signaled a return of corrupt influences over the Fund's investment activities – which is one of the circumstances that led to the Department of Labor's filing of this litigation nearly forty years ago.

Northern Trust assured the EBSA representatives that Logan Square was hired as a fixed income manager authorized to exercise its independent judgement within the fairly broad guidelines given to it for selecting investments, and that the Caesar's bonds which it purchased fell within those investment guidelines. No evidence has emerged that Northern Trust, the Pension Fund's Trustees or the Fund's Staff in any way, directly or indirectly, influenced Logan Square's decision to invest in the Caesar's bonds.

The Fund's Staff reports that since EBSA's August 2, 2017 meeting with Northern Trust there have been no further EBSA inquiries concerning this matter made to either the Pension Fund's Staff or to Northern Trust.

Financial Information - Investment Returns

The Pension Fund's investment return for the second quarter of 2017 was 2.59%.

Shown below is a comparison of the Pension Fund's performance to a Composite Benchmark consisting of a composite of representative and weighted index returns for each

asset class held by the Fund. That is, the Composite Benchmark is formed from the cumulative index returns for each distinct class of assets held by the Fund on a dollar weighted basis.[2]

Pension Fund's Composite (Percent) Return / 2nd Quarter Ended June 30, 2017

Fund's Composite Return (All asset classes)	2.59
Composite Benchmark Return (All asset Classes)	2.56

Pension Fund's Total Equity (Percent) Return / 2nd Quarter ended June 30, 2017

Fund's Return (Total equity)	3.82
Composite Benchmark (Total equity)	3.84

[2] For example, the Fund currently has 20% of its assets invested in a passive account that closely tracks the S&P 500 Index. The S&P 500 Index showed a return of 3.09% during the second quarter of 2017; therefore, the portion of the Composite Benchmark that is applicable to and accounts for the Fund's investment in the Passive S&P 500 Index Account is 0.618% (*i.e.*, 20% of assets x 3.09% return for the second quarter = 0.618%). Similar calculations are made for each asset class held by the Fund, and the cumulative result is the Composite Benchmark for the Fund's total assets. Composite Benchmarks for subclasses of the Fund's assets (*e.g.*, for total assets under the control of the Named Fiduciary) are derived using the same methodology.

The Fund formerly used the Trust Universe Comparison Service ("TUCS") to compare its performance to other pension plans. The TUCS Custom Large Funds Universe is composed of plans with assets exceeding $3 billion. However, in light of the Pension Fund's projected insolvency and the specialized asset allocation plan proposed by the Named Fiduciary in light of that projection (as approved by the Court in its June 5, 2017 Order), TUCS seemed to provide a less suitable point of comparison for the Fund's performance; therefore the Composite Benchmark method of comparison will be used in the future.

Pension Fund's Total Fixed Income Return / 2nd Quarter Ended June 30, 2017

Fund's Fixed Income Return	1.15
Composite Return (Total Fixed Income)	1.34

The Fund's Named Fiduciary, Northern Trust, which has been allocated 50% of the Fund's investment assets, submits monthly investment reports to the Trustees, summarized below (showing percent returns on investment):

Northern Trust's Returns / 2nd Quarter Ended June 30. 2017

Northern Trust's Composite Return (All Asset Classes)	2.46
Northern Trust's Benchmark Composite Return (All Asset Classes)	2.39
Northern Trust's Total Fixed Income Return	1.11
Northern Trust's Benchmark Composite Total Fixed Income Return	1.18

Northern Trust's second quarter 2017 composite return included a 2.32% return on U.S. equities (1.92% on large cap, 2.32% on mid cap and 3.93% on small cap), 6.29% on international equities, and 5.05% on global listed infrastructure.

The Fund's financial group reported the following asset allocation of the Pension Fund as a whole as of June 30, 2017 as follows: 42% equity, 56% fixed income, 1% other and 1% cash.

The financial group also reported that for the second quarter of 2017 the returns on the Fund's passive indexed accounts were as follows (showing percent returns on investment):[3]

Account	Fund's Rate of Return for 2nd Quarter 2017	Benchmark for 2nd Quarter 2017
Passive Indexed Equity (S&P 500) (25% of investment assets)	3.02	3.09
Passive Indexed Fixed Income (20% of investment assets)	1.26	1.45
Passive EAFE Indexed (5% of investment assets)	6.14	6.12

Financial Information - Net Assets
(Dollars shown in thousands)

The financial reports prepared by Pension Fund Staff for the three months ended June 30, 2017 (enclosed) show net assets as of that date of $15,287,355, compared to $15,267,533 at June 30, 2016, an increase of $19,822 compared to a decrease of $500,093 for the same period in 2016. The $519,575 difference is due to $552,951 more net investment income offset by $33,036 more net operating loss.

The enclosed Fund's Staff report further notes that for the six months ended June 30, 2017, the Fund's net operating loss was $1,076,033 compared to a loss of $1,043,991 for the same period in 2016, or a $33,036 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

a) ($38,874) less in contributions primarily due to a decrease in withdrawal liability revenue in 2017 and an extra billing week in 2016,

b) $264 less in benefits and

c) $1,574 less in general and administrative expenses.

During the three months ended June 2017 and 2016, the Fund withdrew $1,257,871 and $1,092,063, respectively, from investment assets to fund the cash operating deficit.

[3] The Fund's returns for each of the passive index accounts are presented net of all investment expenses and transaction costs. Of course, the Benchmarks (indices) to which the passive accounts are compared do not reflect any deductions for investment expenses.

Financial Information - Participant Population

The enclosed June 30, 2017 report prepared by Fund Staff further notes that the two month average number of Full-Time Equivalent ("FTE") memberships decreased 1.33% from May 2016 to May 2017 (from 58,780 to 57,833). During that period, the average number of retirees decreased 0.92% (from 204,698 to 202,822).

Named Fiduciary

During the second quarter officers of the Named Fiduciary, Northern Trust, met with the Board of Trustees to discuss portfolio matters including asset allocation.

Hybrid Withdrawal Liability Method

As indicated in my prior reports, in July 2011 the Trustees adopted -- subject to approval by the Pension Benefit Guaranty Corporation ("PBGC") — an alternative withdrawal liability method.[4] Under this method, new employers joining the Pension Fund will have their withdrawal liability measured based upon the "direct attribution" method; employers who already participate in the Fund can also be treated as new employers for withdrawal liability purposes on a prospective basis (and become eligible for the "direct attribution" method) by satisfying their existing withdrawal liability under the method historically employed by the Pension Fund (*i.e.*, the "modified presumptive method"), and then agreeing to continue to contribute to the Fund. This recently formula is referred to as a "hybrid" withdrawal liability method.

Staff reports that it believes the hybrid method offers a means for employers who are concerned about the potential for future growth in their exposure to withdrawal liability to cap their liability at its present level while continuing to participate in the Fund with little or no risk of withdrawal liability in the future.

Further, as explained in my prior reports, in November 2012, the Trustees restructured the Primary Schedule of the Rehabilitation Plan so that employers who satisfy their withdrawal liability qualify as New Employers under the hybrid method and continue to contribute to the Pension Fund will not be subject to the rate increase rate requirements to which other Primary Schedule Employers are subject. The Trustees have also approved an amendment intended to help ensure that New Employers who satisfy their existing withdrawal liability and continue to contribute to the Fund under the hybrid method will not face increased risks in the event of a mass withdrawal, as compared to employers who have simply withdrawn from the Fund and completely discontinued pension contributions.

Staff reports that to date approximately 90 old employers have satisfied their existing liability and qualified as new employers under the hybrid plan, or have made commitments in principle to do so. This has resulted in the payment of (or commitments to pay, subject to the

[4] The Pension Fund's Staff advises that on October 14, 2011, the PBGC approved the Pension Fund's use of the hybrid method.

execution of formal settlement documents) approximately $290 million in withdrawal liability to the Pension Fund while the employers in question also continue to contribute to the Fund pursuant to their collective bargaining agreements at guaranteed participation levels. Staff estimates that contributions paid to date under these participation guarantees, plus future contributions required to satisfy the guarantees, will total approximately $94.6 million.

Bankruptcies and Litigation

The Fund's Staff also reports that Allied Systems Holdings, Inc. and its affiliates ("Allied") -- an automobile transporter with several hundred participants in the Funds -- filed for Chapter 11 bankruptcy protection in mid-2012. However, Allied continued to operate in bankruptcy and to pay contributions to the Funds on behalf of its drivers. Staff reports that in December 2013 Jack Cooper, Inc., another unionized automobile transporter, purchased the assets of Allied in the bankruptcy and will continue to contribute to the Funds with respect to the purchased assets and operations, but without an assumption or Jack Coopers' withdrawal liability. Allied's withdrawal liability (in the amount of $976 million) was triggered by the sale and Staff advises that the Allied bankrupt estate is not likely to have assets sufficient to satisfy this assessment. However, as noted, Jack Cooper has to date been able to continue the income stream to the Funds represented by the contributions historically paid by Allied.

YRC

As also previously reported, in May 2009 the Funds entered a Contribution Deferral Agreement ("CDA" or "Deferral Agreement") with YRC, Inc. and its affiliates ("YRC") -- one of the largest contributing employers to the Fund. Under the Deferral Agreement, the Pension Fund ultimately agreed to defer approximately $109 million in pension contributions. The Fund's financial consultant indicated that absent deferral of these contribution obligations, YRC would be in default of loan covenants with its banks; Staff reported that such a default would risk triggering an insolvency and liquidation of YRC, which would destroy any chance of rehabilitating the employer as a healthy contributor to the Funds.

Some 25 other multiemployer pension plans in which YRC participates joined in the Deferral Agreement, but the Pension Fund is owed approximately 64% of the contributions deferred under the Agreement.

Following a temporary termination of YRC's participation in the Pension Fund (due to its chronic delinquencies), on September 24, 2010, the Teamsters National Freight Negotiating Committee and YRC executed an Agreement for the restructuring of the YRC Worldwide, Inc. Operating Companies ("Restructuring Agreement"), which further revised YRC's pension contribution obligations. Under this Agreement YRC was scheduled to resume contributions to the Pension Fund in June 2011 at a rate constituting a 75% reduction from its pre-termination (pre-July 2009) rate.

In March 2011 the Trustees then approved an arrangement under which the CDA repayment obligations were to be deferred until March 31, 2015 (when a lump sum payment of the entire CDA balance was scheduled to be made), with the exception of monthly interest payments to commence in June 2011.

At the March 9, 2011 Board Meeting, the Fund's Trustees also determined, in light of the company's continuing financial distress, that it was appropriate to accept contributions at the new contribution rate proposed under the YRC/TNFNC September 24, 2010 Restructuring Agreement (25% of the rate required prior to the July 2009 termination).

At the same time, the Trustees decided that the YRC employee unit should receive reduced benefits equivalent in most respects to the Default Schedule under the Fund's Rehabilitation Plan. (This is termed the "Distressed Employer" schedule of benefits.)

In January 2014, after consultation with financial, actuarial and legal advisors, the Trustees voted to approve a revised CDA extending the balloon payment under the CDA from 2015 to 2019. The other Teamster Pension Funds who participated in the CDA also agreed to these terms and an amended CDA was executed on January 31, 2014.

Staff also reports that since July 2011, YRC has remained current in its pension contribution payments ($3-$4 million per month), and in the monthly interest payments (beginning in August 2011) of approximately $500,000. In addition, on November 12, 2013 the interest rate under the CDA escalated from 7.5% per year to 7.75%.

In addition, Staff has reported that to date the Pension Fund has received approximately $45.3 million as its share of the net proceeds from sales of collateralized assets that were applicable to principal owed under the CDA. Staff reports that after accounting for all principal and interest payments made to date, the unpaid balance owed to the Pension Fund under the CDA by YRC is approximately $68 million. Staff also notes that in May 2012 the Fund received a payment of approximately $110,000 under the CDA which was expressly denominated as a fee calculated under that Agreement with the intention to match of a portion of a refinancing charge paid by YRC to its commercial lenders (and not applicable to reduce YRC's principal or interest balance); on November 12, 2013 the Fund received approximately $419,000 as another such refinancing fee match.

Health and Welfare Fund

Department of Labor Review

As indicated in my prior reports, on February 2, 2016 the Chicago office of the U.S. Department of Labor (the "Department") commenced an onsite review of various Health and Welfare Fund documents that the Department requested pursuant to its general authority under ERISA § 504, 29 U.S.C. §1134. The Health and Welfare Fund's Staff advises that this is a fairly standard review, and has apparently not been prompted by any specific concerns by the Department of Labor about the Fund's compliance with ERISA and other legal requirements.

The Department of Labor's review has focused on the operations of the Active Health and Welfare Plan, and the documents requested by the Department include Trust Agreements, Plan Documents, Summary Plan Descriptions, Evidence of Coverage, Enrollment Packages, Summaries of Benefits and Coverage, contracts with service providers and Form 5500 Annual Reports.

Following their onsite inspection of documents at the Fund's offices during the week of February 2, 2016, the Department of Labor personnel involved in this review asked the Fund to provide various data and files relating to claims processing. The Fund's Staff reports that all requested files and data have been provided to the Department of Labor, and that these materials are currently being reviewed by the Department.

Galliard Asset Management, Inc.

Galliard Asset Management, Inc. ("Galliard") was one of the fixed-income asset managers retained by Northern Trust to invest the assets of the Central States Health and Welfare Fund. Galliard has reported that in March 2016 it inadvertently engaged in a non-exempt prohibited transaction.

The transaction in question involved Galliard's March 8, 2016 purchase, on behalf of the Health and Welfare Fund, of $1,127,604.40 in fixed-income securities issued by Berkshire Hathaway, Inc. ("BH"). Galliard is wholly owned by Wells Fargo & Co ("Wells Fargo"). However, on March 17, 2016, BH issued a report indicating that it had acquired an ownership interest in Wells Fargo of greater than 10%. *See* ERISA § 406(b)(1) (a fiduciary may not deal with plan assets in his own interest or his own account).

Between April and September 2016 Galliard sold BH securities that it had purchased on behalf of the Fund. The Fund experienced a net gain of 3.4% as a result of Galliard's trades in the BH securities between March 8, 2016 and September 15, 2016, which compares favorably to the return of the 0.86% experienced by the index against which Galliard is benchmarked during the same period.

In addition Galliard has reimbursed the Fund for the transaction costs (approximately $1,000) incurred has a result of Galliard's purchases and sales of BH securities.

Northern Trust reports that it has decided to terminate Galliard as an investment manager.

Financial Information
(Dollars shown in thousands)

The Health and Welfare Fund's financial summary for the six months ended June 30, 2017 are compared below with financial information for the same period of 2016:

	Six Months Ended June 30, 2017	2016
Contributions	$1,581,202	1,561.539
Recognized portion of UPS lump sum	36,756	42,906
Benefits	1,363,145	1,315,484
TeamCare administrative expenses	39,784	38,408
General and administrative expenses	37,173	35,546
Operating gain (loss)	177,856	215,007
Investment income (loss)	168,536	129,672
Change in net assets	346,392	344,679
Net assets, end of period	$5,396,618	4,660747
Two-month average Participants (FTEs)	189,600	189,112

For the six months ended June 30, 2017, the Health and Welfare Fund's net operating gain was $ 177,856 compared to a gain of $215,007 for the same period in 2016, or a $37,151 unfavorable change:

(a) $ 13,513 more contributions,

(b) ($47,661) more benefits,

(c) ($1,376) more TeamCare administrative fees and

(d) ($1,627) more general and administrative expenses.

During the six months ended June 2017 and 2016, the Fund transferred $254,936 and $214,421, respectively, to investments as the operations generated positive cash flows for those periods.

The enclosed report also notes that the two month average number of Full-Time Equivalent (FTE) memberships increased by 0.26% from May 2016 to May 2017 (from 189,112 to 189,600). During that period, the average number of retirees covered by the Health and Welfare Fund increased by 6.80% (from 6,253 to 6,678).

Article V (H)

As required by Article V (H) of the Health and Welfare Fund Consent Decree, the Health and Welfare Fund has paid during the second quarter of 2017 the following for professional services and expenses for the Independent Special Counsel:

April	$ 8,296.98
May	$ 0.00
June	$ 0.00

I will be glad to provide additional details regarding any aspect of my activities as Independent Special Counsel. Should you have any questions or comments, please do not hesitate to contact me.

Sincerely,

David H. Coar

Enclosure

cc: Mr. R. Alexander Acosta, Solicitor of Labor (w/encl.) **Via UPS Next Day**
Mr. Wayne Berry (w/encl.) **Via UPS Next Day**
Mr. Thomas C. Nyhan