To: Operating Engineers Pension Trust Participants

From: Board of Trustees of the Operating Engineers Pension

Re: Annual Funding Notice/Notice of Critical Status

Enclosed are notices that the Pension Trust is required by law to send to you.

The Annual Funding Notice, which was first sent to you in 2009, provides information about the funded status of the Pension Trust. The Trust is required to send you a Notice of Critical Status (also called a Red Zone Notice) each year while the Trust is operating under the funding improvement plan (Rehabilitation Plan). Despite some terms like “Red Zone” and “Critical Status”, you should know that the Trust continues to be able to meet all of its obligations and is progressing on the funding improvement plan as adopted by the Board.

As you review this information, please keep the following in mind:

- If you became a pensioner or beneficiary before October 28, 2010, (the mailing date of the initial Critical Status Notice), nothing in these Notices will cause any change in your benefits.

- The Rehabilitation Plan, as adopted by the Board of Trustees, was previously sent to you. To request another copy of the Rehabilitation Plan, please write to Operating Engineers Trust Funds at the address on this letter, Attention: Linda Hughes.

We will keep you informed of new developments. If you have questions, you may contact the Fund Office. We will respond to the best of our ability, based on the information available at the time.
ANNUAL FUNDING NOTICE

October 28, 2013

Introduction

This notice includes important funding information about your pension plan (“the Plan”). This notice also provides a summary of federal rules governing multiemployer plans in reorganization and insolvent plans and benefit payments guaranteed by the Pension Benefit Guaranty Corporation (PBGC), a federal agency. This notice is for the plan year beginning July 1, 2012 and ending June 30, 2013 (“Plan Year”).

Funded Percentage

The funded percentage of a plan is a measure of how well that plan is funded. This percentage is obtained by dividing the Plan’s assets by its liabilities on the valuation date for the plan year. In general, the higher the percentage, the better funded the plan. The Plan’s funded percentage for the Plan Year and 2 preceding plan years is set forth in the chart below, along with a statement of the value of the Plan’s assets and liabilities for the same period.

<table>
<thead>
<tr>
<th>Funded Percentage</th>
<th>2012-2013 Plan Year</th>
<th>2011-2012 Plan Year</th>
<th>2010-2011 Plan Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Date</td>
<td>July 1, 2012</td>
<td>July 1, 2011</td>
<td>July 1, 2010</td>
</tr>
<tr>
<td>Funded Percentage</td>
<td>69.0%</td>
<td>71.8%</td>
<td>72.5%</td>
</tr>
<tr>
<td>Value of Assets</td>
<td>$1,950,966,540</td>
<td>$2,001,292,267</td>
<td>$1,988,590,669</td>
</tr>
<tr>
<td>Value of Liabilities</td>
<td>$2,827,825,127</td>
<td>$2,786,367,975</td>
<td>$2,741,445,730</td>
</tr>
</tbody>
</table>

Fair Market Value of Assets

Asset values in the chart above are actuarial values, not market values. Market values tend to show a clearer picture of a plan’s funded status as of a given point in time. However, because market values can fluctuate daily based on factors in the marketplace, such as changes in the stock market, pension law allows plans to use actuarial values for funding purposes. While actuarial values fluctuate less than market values, they are estimates.

As of June 30, 2013, the fair market value of the Plan’s net assets was $1,686,638,239 (a preliminary figure, subject to change). As of June 30, 2012, the fair market value of the Plan’s net assets was $1,625,805,450. As of June 30, 2011, the fair market value of the Plan’s net assets was $1,694,934,742.

Participant Information

The total number of participants in the Plan as of the Plan’s valuation date was 31,172. Of this number, 9,870 were active participants, 15,946 were retired or separated from service and receiving benefits, and 5,356 were retired or separated from service and entitled to future benefits.

Funding & Investment Policies

The law requires that every pension plan have a procedure for establishing a funding policy to carry out the plan objectives. A funding policy relates to the level of contributions needed to pay for benefits promised under the plan currently and over the years. The funding policy of the Plan is: the Plan is funded by contributions made by employers pursuant to collective bargaining agreements with the union that represents the Plan’s participants.

Once money is contributed to the Plan, the money is invested by Plan officials called fiduciaries. Specific investments are made in accordance with the Plan’s investment policy. Generally speaking, an investment policy is a written statement that provides the fiduciaries who are responsible for plan investments with guidelines or general instructions concerning various types or categories of investment management decisions.
The Board of Trustees relies upon the expertise of the Investment Consultant in establishing an allocation of individual investments within an overall Investment Policy. Individual investment allocations are placed with investment professionals who then have the discretion of investing assigned assets within the guidelines applicable to their assigned portfolio.

### POLICY TARGET ASSET MIX

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Market Value Target (%)</th>
<th>Minimum Exposure (%)</th>
<th>Maximum Exposure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>28</td>
<td>14</td>
<td>42</td>
</tr>
<tr>
<td>Domestic Small/Mid Cap</td>
<td>12</td>
<td>6</td>
<td>18</td>
</tr>
<tr>
<td>Global Equity</td>
<td>16</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>17</td>
<td>10</td>
<td>24</td>
</tr>
<tr>
<td>GTAA &amp; Risk Parity</td>
<td>20</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Real Estate</td>
<td>25</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Alternative Assets</td>
<td>10</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>Private Equity</td>
<td>5</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Private Debt</td>
<td>5</td>
<td>0</td>
<td>8</td>
</tr>
</tbody>
</table>

**Definitions**

- **Domestic Mid Cap:** Stocks of US companies with a market capitalization value between $2 billion and $10 billion
- **Domestic Small Cap:** Stocks of US companies with a market capitalization value between $300 million and $2 billion
- **Global Equity:** Stocks of US and non-US companies in developed and emerging economies
- **Fixed Income:** Corporate bonds, gov’t bonds, asset-backed and mortgage-backed securities
- **GTAA:** Stocks, bonds, derivatives
- **Real Estate**

In accordance with the Plan’s investment policy, the Plan’s assets were allocated among the following categories of investments, as of the end of the Plan Year.

These allocations are percentages of total assets:

<table>
<thead>
<tr>
<th>Asset Allocations</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interest-bearing cash</td>
<td>0.80%</td>
</tr>
<tr>
<td>2. U.S. government securities and Corporate debt instruments (other than employer securities): Preferred</td>
<td>0.02%</td>
</tr>
<tr>
<td>3. Corporate stocks (other than employer securities): Preferred Common</td>
<td>9.81%</td>
</tr>
<tr>
<td>4. Partnership/joint venture interests</td>
<td>3.05%</td>
</tr>
<tr>
<td>5. Real estate (other than employer real property)</td>
<td>38.90%</td>
</tr>
<tr>
<td>6. Loans (other than to participants)</td>
<td></td>
</tr>
<tr>
<td>7. Participant loans</td>
<td></td>
</tr>
<tr>
<td>8. Value of interest in common/collective accounts</td>
<td>13.01%</td>
</tr>
<tr>
<td>9. Value of interest in pooled separate accounts</td>
<td></td>
</tr>
<tr>
<td>10. Value of interest in master trust investment accounts</td>
<td></td>
</tr>
<tr>
<td>11. Value of interest in 103-12 investment entities</td>
<td>31.91%</td>
</tr>
<tr>
<td>12. Value of interest in registered investment companies (e.g., mutual funds)</td>
<td></td>
</tr>
<tr>
<td>13. Value of funds held in insurance co. general account (unallocated contracts)</td>
<td></td>
</tr>
<tr>
<td>14. Employer-related investments: Employer Securities Employer real property</td>
<td></td>
</tr>
<tr>
<td>15. Buildings and other property used in plan operation</td>
<td></td>
</tr>
<tr>
<td>16. Other</td>
<td>2.51%</td>
</tr>
</tbody>
</table>

**Note:** The fair market value of the Plan net assets as of June 30, 2013 is preliminary and subject to change upon completion of the audited financial statement.
Under federal pension law a plan generally will be considered to be in “endangered” status if, at the beginning of the plan year, the funded percentage of the plan is less than 80 percent or in “critical” status if the percentage is less than 65 percent (other factors may also apply). If a pension plan enters endangered status, the trustees of the plan are required to adopt a funding improvement plan. Similarly, if a pension plan enters critical status, the trustees of the plan are required to adopt a rehabilitation plan. Rehabilitation and funding improvement plans establish steps and benchmarks for pension plans to improve their funding status over a specified period of time.

The Plan was in critical status for the Plan Years beginning July 1, 2010, July 1, 2011, July 1, 2012, and July 1, 2013. For each of the previous years, you received a separate notice related to the Plan’s critical status certification, and there will be another critical status notice this year.

Federal law requires trustees to provide in this notice a written explanation of events, taking effect in the current plan year, which are expected to have a material effect on plan liabilities or assets. For the plan year beginning on July 1, 2013 and ending on June 30, 2014, the Rehabilitation Plan may have a material effect on plan liabilities. The Rehabilitation Plan was formally adopted by the Trustees on October 22, 2010, as a result of the Plan having been certified in critical status on September 28, 2010. The Rehabilitation Plan was updated as of September 28, 2011, as of September 26, 2012, and again as of July 30, 2013.

A pension plan is required to file with the US Department of Labor an annual report (i.e., Form 5500) containing financial and other information about the plan. Copies of the annual report are available from the US Department of Labor, Employee Benefits Security Administration’s Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202-693-8673. Or you may obtain a copy of the Plan’s annual report by making a written request to the plan administrator.

The Annual Report for the 2012-2013 plan year will not be available until mid-April of 2014.

While this Plan is neither in Reorganization status nor Insolvent, as those terms are defined by the statute, the following official description of the PBGC benefit guarantee program and related rules is required by law to be included in this Notice.

Federal law has a number of special rules that apply to financially troubled multiemployer plans. Under so-called “plan reorganization rules,” a plan with adverse financial experience may need to increase required contributions and may, under certain circumstances, reduce benefits that are not eligible for the PBGC’s guarantee (generally, benefits that have been in effect for less than 60 months). If a plan is in reorganization status, it must provide notification that the plan is in reorganization status and that, if contributions are not increased, accrued benefits under the plan may be reduced or an excise tax may be imposed (or both). The law requires the plan to furnish this notification to each contributing employer and the labor organization.

Despite the special plan reorganization rules, a plan in reorganization nevertheless could become insolvent. A plan is insolvent for a plan year if its available financial resources are not sufficient to pay benefits when due for the plan year. An insolvent plan must reduce benefit payments to the highest level that can be paid from the plan’s available financial resources. If such resources are not enough to pay benefits at a level specified by law (see Benefit Payments Guaranteed by the PBGC, below), the plan must apply to the PBGC for financial assistance. The PBGC, by law, will loan the plan the amount necessary to pay benefits at the guaranteed level. Reduced benefits may be restored if the plan’s financial condition improves.

A plan that becomes insolvent must provide prompt notification of the insolvency to participants and beneficiaries, contributing employers, labor unions representing participants, and PBGC. In addition, participants and beneficiaries also must receive information regarding whether, and how, their benefits will be reduced or affected as a result of the insolvency, including loss of a lump sum option. This information will be provided for each year the plan is insolvent.
Benefit Payments Guaranteed by the PBGC

The maximum benefit that the PBGC guarantees is set by law. Only vested benefits are guaranteed. Specifically, the PBGC guarantees a monthly benefit payment equal to 100 percent of the first $11 of the Plan’s monthly benefit accrual rate, plus 75 percent of the next $33 of the accrual rate, times each year of credited service. The PBGC’s maximum guarantee, therefore, is $35.75 per month times a participant’s years of credited service.

Example 1: If a participant with 10 years of credited service has an accrued monthly benefit of $500, the accrual rate for purposes of determining the PBGC guarantee would be determined by dividing the monthly benefit by the participant’s years of service ($500/10), which equals $50. The guaranteed amount for a $50 monthly accrual rate is equal to the sum of $11 plus $24.75 (.75 x $33), or $35.75. Thus, the participant’s guaranteed monthly benefit is $357.50 ($35.75 x 10).

Example 2: If the participant in Example 1 has an accrued monthly benefit of $200, the accrual rate for purposes of determining the guarantee would be $20 (or $200/10). The guaranteed amount for a $20 monthly accrual rate is equal to the sum of $11 plus $6.75 (.75 x $9), or $17.75. Thus, the participant’s guaranteed monthly benefit would be $177.50 ($17.75 x 10).

The PBGC guarantees pension benefits payable at normal retirement age and some early retirement benefits. In calculating a person’s monthly payment, the PBGC will disregard any benefit increases that were made under the plan within 60 months before the earlier of the plan’s termination or insolvency (or benefits that were in effect for less than 60 months at the time of termination or insolvency). Similarly, the PBGC does not guarantee pre-retirement death benefits to a spouse or beneficiary (e.g., a qualified pre-retirement survivor annuity) if the participant dies after the plan terminates, benefits above the normal retirement benefit, disability benefits not in pay status, or non-pension benefits, such as health insurance, life insurance, death benefits, vacation pay, or severance pay.

Where to Get More Information

For more information about this notice, send written inquiries to:

Joseph Ehrbar, Fund Manager
Operating Engineers Pension Trust
100 E. Corson Street, Pasadena, CA 91103

Phone inquiries may be made toll free to 1-888-512-5279.

For identification purposes, the official Plan number is 001 and the Plan sponsor’s employer identification number or “EIN” is 95-6032478. For more information about the PBGC and benefit guarantees, go to PBGC’s website, www.pbgc.gov, or call PBGC toll-free at 1-800-400-7242 (TTY/TDD users may call the Federal relay service toll free at 1-800-877-8339 and ask to be connected to 1-800-400-7242).
NOTICE OF CRITICAL STATUS

This is to inform you that on September 28, 2013 the actuary for the Operating Engineers Pension Plan (the “Plan”) certified to the U.S. Department of the Treasury, and to the Board of Trustees that the Plan continues to be in critical status (the “red zone”) for the Plan Year beginning July 1, 2013. Federal law requires that you receive this notice.

BACKGROUND

Beginning with the 2008-2009 plan year, using funding criteria set forth in the Internal Revenue Code, the Pension Protection Act of 2006 (“PPA”) required multiemployer defined benefit pension plans to be certified by their actuaries as being in one of three funded status zones:

- Neither Endangered nor Critical (unofficially called the “Green Zone”)
- Endangered (unofficially called the “Yellow Zone”)
- Critical (unofficially called the “Red Zone”)

While trustees of Green Zone plans must continue to exercise diligence to protect the funded position of their plans, the law does not require them to take any specific actions or adopt particular programs to maintain or improve plan funding. On the other hand, trustees of plans that are not in the Green Zone must take specific actions spelled out in the law, including the adoption of a “Funding Improvement Plan” for plans in endangered status or a “Rehabilitation Plan” for plans in critical status that are designed to restore the plans to Green Zone status over a period of time. For example, a plan in critical status may reduce or eliminate adjustable benefits, collect an employer surcharge, or require the bargaining parties to negotiate for additional employer contributions.

CRITICAL STATUS

The Plan is considered to be in critical status because it has funding problems. More specifically, the Plan’s Actuary has determined that the Plan is in critical status based on the failure of two separate tests:

1. The Plan is projected to have an accumulated funding deficiency within four years (disregarding any amortization extension).
2. The Plan was in critical status for the immediately preceding Plan Year and is projected to have an accumulated funding deficiency within ten years.

REHABILITATION PLAN

In October 2010, you received a notice advising you that the Plan was in critical status for the 2010-2011 Plan Year. Federal law requires pension plans in critical status to adopt a rehabilitation plan aimed at restoring the financial health of the plan. In December 2010, the Trustees adopted Amendment 14 to the 2002 Restatement of the Pension Plan. This amendment makes the Rehabilitation Plan an Appendix to the Plan Document. In October 2010, you were sent a copy of the Rehabilitation Plan.

Since then, the Trustees have reviewed the Rehabilitation Plan each year, and have most recently updated the Rehabilitation Plan effective July 30, 2013. In August 2013, the Fund Office mailed a copy of the updated Rehabilitation Plan to you.
The updated 2013 Rehabilitation Plan offers the bargaining parties a choice between a default schedule, under which all adjustable benefits are eliminated, and two alternate schedules. The alternate schedules provide that no benefits will be reduced or eliminated (except the Level Income Option). You will be notified if there is any change in the schedules.

The law permits pension plans to reduce or even eliminate benefits called “adjustable benefits” as part of a rehabilitation plan. As explained above, all adjustable benefits are eliminated under the default schedule, and you have already received a notice explaining the reductions that are imposed under the default schedule.

If the Trustees of the Plan determine that benefit reductions are necessary in the alternate schedules, you will receive a separate notice in the future identifying and explaining the effect of those reductions. Any reduction of adjustable benefits (other than a repeal of a recent benefit increase) will not reduce the level of a participant’s basic benefit payable at normal retirement age. Also, such reductions in adjustable benefits can only apply to benefits that are payable for calendar months following the mailing, by the Fund Office, of a notice explaining what reductions, if any, will be made.

Plans in critical status are not permitted to pay lump sum benefits greater than $5,000 or any other payment in excess of the monthly amount paid under a single life annuity. The Operating Engineers Plan does not pay lump sums over $5,000. However, the Plan’s Level Income Option does provide accelerated payments (greater than a single life annuity) in the initial years of retirement. Therefore, the Level Income Option continues to be unavailable to new retirees while the Plan is in critical status. This restriction applies whether or not the Plan reduces adjustable benefits in the future.

**ADJUSTABLE BENEFITS**

The Plan offers the following adjustable benefits that may be reduced or eliminated as part of any rehabilitation plan the Trustees may adopt:

- Subsidies for Early Retirement Pensions and Service Pensions;
- For hours worked on and after October 1, 2013, benefit accrual in excess of 1% of the hourly master contribution rate as of July 1, 2010;
- Disability Pensions not already in pay status as of October 28, 2010;
- The Plan’s 120-month guarantee on the single life form of payment;
- All pre-retirement death benefits for non-spouse beneficiaries;
- For surviving spouses in the event of pre-retirement death, all death benefits other than a qualified pre-retirement survivor annuity equal to 50% of the unsubsidized amount that would have been payable to the participant under the Husband and Wife Pension;
- Subsidies in the Plan’s adjustment factors for Joint and Survivor forms of payment; and
- The Lump Sum at Retirement.

As noted above in the discussion of the Rehabilitation Plan, the Plan approved by the Trustees offers the bargaining parties a choice between a default schedule, under which all adjustable benefits are eliminated, and two alternate schedules. The alternate schedules provide that no benefits will be reduced or eliminated except the Level Income Option. You will be notified if there is any change in the schedules.

**EMPLOYER SURCHARGE**

The law requires that all contributing employers pay to the Plan a surcharge to help correct the Plan’s financial situation. The surcharge begins 30 days after the contributing employers are notified that the Plan is in critical status. The surcharge ends when a Collective Bargaining Agreement (CBA) consistent with one of the schedules in the rehabilitation plan takes effect.

The surcharge - determined as a percentage of an employer’s negotiated contribution rate - is 5% for the remainder of the first Plan Year for which the Plan is in critical status, increasing to 10% for each subsequent Plan Year in which the Plan is in critical status and a new CBA reflecting the rehabilitation plan has not yet taken effect.

The 2010-2011 Plan Year is considered the first Plan Year that the Plan was in Critical Status and the current Plan Year – the 2013-2014 Plan Year – is the fourth Plan Year that the Plan is in Critical Status.
WHAT’S NEXT

We understand that legally required notices like this one can create concern about the Trust’s future. Be assured that the Board of Trustees takes very seriously its obligation to preserve the financial viability of the Trust. With the assistance of the Trust’s actuary, legal counsel and other professionals, and working with the contributing employers and the Union, the Trustees have developed a rehabilitation plan that addresses these issues. You should know that both contribution increases and benefit reductions may be necessary to improve the Trust’s serious financial condition. As a final note, since the Pension Trust is influenced by economic and financial variables beyond our control (such as market volatility and changes in employment and/or the number of contributing employers), unexpected developments can affect the Trust’s status and any future corrective actions needed. Each year the Board of Trustees will be reviewing the Trust’s progress with its professional advisors, which may lead to future changes in the recommended contribution and benefit schedules.

WHERE TO GET MORE INFORMATION

For more information about this notice or the Trust, contact the Administration Office at the address or phone listed at the top of this letter. The Fund Office mailed you a copy of the updated Rehabilitation Plan at the end of August 2013.

Sincerely,

Board of Trustees

As required by law, this notice is being provided to the Pension Benefit Guaranty Corporation (PBGC) and the Department of Labor.