

MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

August 18, 2005

The regular meeting of the City of Chattanooga General Pension Plan was held August 18, 2005 at 1:45 p.m. at the Chattanooga Hotel. Trustees present were David Eichenthal, Carl Levi, Daisy Madison and Corinne Allen. Others attending the meeting were Donna Kelley, City Personnel Office; Vickie Corson, City Finance Department; Chris Haley, City Finance Department; Michael McMahan, Nelson, McMahan & Noblett; Robert Longfield, Consulting Services Group; Scott Arnwine, Consulting Services Group; Graham Schmidt, EFI, Inc.; and Teresa Hicks of First Tennessee.

The meeting was called to order by Chairman David Eichenthal. A quorum was present.

The minutes of the meeting held July 21, 2005 were approved.

Upon a motion duly passed, the following pension benefits and plan expenses were approved:

ACCOUNTS PAYABLE

<u>COMPANY</u>	<u>AMOUNT PAYABLE</u>	<u>SERVICES RENDERED</u>
FIRST TENNESSEE	\$19,347.59	Custody and benefit payment services for quarter ending June 30, 2005
IMAGING SOLUTIONS AND SERVICES, INC.	\$475.20	Scanning services
THREE HD	\$1,019.97	Web site design

INVESTMENT MANAGERS

INSIGHT	\$12,704.32	Investment management fee for quarter ending June 30, 2005
NWQ INVESTMENT MANAGEMENT	\$25,327.29	Investment management fee for quarter ending June 30, 2005
THORNBURG INVESTMENT MANAGEMENT	\$34,112.00	Investment management fee for quarter ending June 30, 2005
	\$72,143.61	Total

ACCOUNTS RECEIVABLE

<u>COMPANY</u>	<u>AMOUNT RECEIVED</u>	<u>PURPOSE</u>
No activity		

REPORT OF ACCOUNT (S) PAID

HARTFORD LIFE AND ACCIDENT INSURANCE CO. (Long-Term Disability)	\$12,576.91	Premium August 2005
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MISCELLANEOUS ITEMS

NAME

TRANSACTION

No activity

Quarterly Performance

Mr. Longfield from Consulting Services Group presented the quarterly performance to the board. The overall economy is doing well. The Federal Reserve increased the rate in June and again in August. CSG does not anticipate anymore pauses with rates being raised. The CPI was lower than expected but the PPI increased. PPI (producer priced) is what the manufacturers pay versus the consumer price. Raw materials increased but consumer price did not increase. Utilities and energies raised money in the first six months. The Bank of England lowered rates and China has revalued how they manage the currency. China has switched from a set dollar with the U.S. to a basket.

The pension plan did not have any violations in the second quarter to the investment policy or portfolio diversification guidelines. The large cap domestic equities were down 2.1% versus the S&P 500 which was down 2.37%. The small cap domestic outperformed with 8.2% versus the Russell 2000 which was up only 5.71%. The international equities were down 5% compared to the EAFE which was down 0.17%. The fixed income was up 4.4% compared to the Lehman Bros. Aggregate which was up 7.40%. CSG is moving further towards the asset allocation with funding of the REIT. Aligning to the asset allocation has added 130 basis points to the pension fund. The newly added money managers have outperformed by 50 basis points.

Most of the domestic equity managers are doing well. Ark Asset Management picked up another 50 basis points versus the market in July. Ark's was up 3.4% for the second quarter versus its index of 2.5%. Ark is where they should be compared to their universe. Patten & Patten had a bad quarter but are still in the top quartile for the year. Patten & Patten is better in down markets than in up markets. Flippin, Bruce & Porter outperformed for the second quarter but still remain on CSG's watch list. Flippin's trailing one year is in the third quartile. NWQ is doing better. They are trailing to their benchmark which was very hard to beat. Insight Capital Management is up 8.5% year to date versus the index which is down 3.6%. Insight was up over 20% for July. Insight, which is having a nice run now, is either up a lot or down a lot. Thomson, Horstmann & Bryant are producing consistent results. They are still a good mix and are in the second quartile. THB is up year to date 0.9% versus the index which is down 1.3%.

Thornburg, the international equity manager, is off to a great start. Thornburg is at 5.3% since inception versus the index which is at 3.5%. Thornburg is at 1.4 % for the second quarter while the index is down 0.8% for the quarter.

The private equity investments include Delta Capital, FCA Venture II and III, Pointer, and Ironwood. The internal rate of return from inception for FCA II is 17.8% while FCA III is down 14.6%. The negative number for FCA III can be contributed to the fact that FCA III is still not fully funded. Pointer is up 2.7%; however, CSG would like to see better numbers from them. CSG expects to see those better numbers by year end. Pointer has only had ten periods in which they produced a negative return. 73% of the time they produce a positive return. All of Pointer's losses are less than one percent. Their worst draw down was two percent. Ironwood, which is up at 7%, has been profitable 93% of their months.

The fixed income has been bad but is much better positioned today. CSG expects better numbers for the third quarter. SEIX high yield fund is even with their benchmark at 2.7% for the second quarter. CSG believes that SEIX is doing fine for the quarter but they are watching the year to date. SEIX is more conservative than SMH which is doing well even without a rally. Rates are anticipated to start picking up. SMH is at 3.3% for the quarter versus the benchmark which is at 2.7%. Both Northern Trust funds are equal to their benchmark. Brandywine is down 70 points which is good versus the market. Brandywine is still in the 2nd quartile for the year to date.

July began a new fiscal year. The last fiscal year resulted in a 6.8% return. One month into the current fiscal year and the plan is already at 3%. The market has rallied in July. Insight is up almost 11%, Thornburg is up 4%, and SMH is up 4% for the month and 7 ½% for the year. CSG had no significant lags to report.

Duff & Phelps has already been funded one million with an additional recommended funding of

\$2.5 million for August. The board had previously approved funding \$1.5 million for September and October. CSG further recommends taking the \$1.5 million funding for September from Flippin, Bruce and Porter. It is recommended that the \$1.5 million for October come from Insight Capital (\$500,000) and Thomson, Horstmann & Bryant (\$1,000,000).

Mr. Levi made a motion for the recommended funding method and Ms. Allen provided a second. The motion was unanimously passed.

Manager Review

Mr. Arnwine from Consulting Services Group presented a manager review of large cap growth manager's Ark Asset Management and Patten & Patten, Inc. Ark Asset Management was founded in 1989 and is based in New York, New York. It is one hundred percent employee owned. Ark has \$15.4 billion in AUM and 257 institutional clients. Ark's investment process focuses on early identification of fundamental changes that will affect the business prospects for specific industries and companies.

Ark's portfolio is constructed around several guidelines. The portfolio will hold approximately fifty to seventy-five positions. The maximum holding size of a position is five percent or twice the index weighting. Ark also will not exceed ten percent in ADR's or ten percent in cash. No sector is to exceed the greater of twice the index weight or twenty-five percent.

Ark's strategy has outperformed its benchmark for the past one, three, five, and seven years and is in the 25th percentile of its peer group for five and seven years. In addition, the rolling three and five year returns have been in the 25th percentile for each period. Ark was able to capture 103.7% of the upside over the last five years versus downside capture of 84.4%.

Patten & Patten, Inc. was founded in 1976 and is located in Chattanooga, Tennessee. Patten & Patten is one hundred percent employee owned. They have \$830 million in AUM and 51 institutional accounts. Patten & Patten is a "top down/bottoms up" manager in that extensive review and monitoring of broad economic/market indicators is first performed to identify asset classes and industry groups to both overweight and underweight. Patten & Patten does not attempt to time markets or ride any short-term momentum waves.

Patten & Patten is in the 15th percentile, or better, of its universe for one, three, five and seven year periods. Patten & Patten has a strong performance in poor market years. Universe ranking is not as strong in good market years. The 1998 and 1999 universe performance was in the 75th percentile. However, 2003 ranking was in the 16th percentile. Their standard deviation was lower than the index for seven of eight calendar years.

Both Ark Asset Management and Patten & Patten do well compared to their peer index and are good compliments of each other. CSG recommends no changes at this time to either money manager.

Report from Counsel

Mr. McMahan reported that the mediation would occur on October 26th in New York. The mediator is highly skilled in this field with 350+ mediations and a ninety percent success rate. Mr. McMahan suspects that Paine Webber anticipates paying something. The pension plan is expecting to receive a payout. Mr. McMahan informed the board that he has no definite recommendations or plan at this time. He does need to go to the mediation with a certain level of authority. If the mediation goes outside that level then he will come back to the board with a recommendation for final approval. Mr. Eichenthal suggests devoting time in the September and October board meetings to discussing where things might go and give a level of authorization for a decision.

First Tennessee Operating Report

Ms. Hicks represented First Tennessee and reported to the board that First Tennessee would be able to enhance their accounting system so that the pension payments would be processed on the last business day. The enhancement would be completed by December. December is the next month in which the last day of the month falls on a weekend. The pension payments will be completed on the last business day. The board was satisfied with the results. Mr. Kelley will notify the concerned pension recipients.

The next board meeting is scheduled for Thursday, September 15, 2005 at 8:45 a.m.

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There being no further business, the meeting was adjourned.

Chairman

APPROVED:

Secretary