

**MEETING OF THE TRUSTEES**

**CITY OF CHATTANOOGA GENERAL PENSION PLAN**

**August 16, 2007**

The regular meeting of the City of Chattanooga General Pension Plan was held August 16, 2007 at 8:45 a.m. at the J.B. Collins Conference Room. Trustees present were Daisy Madison, BettyeLynn Smith, Katie Reinsmidt, Dan Johnson, and Terry Lamb. Others attending the meeting were Pat Cox, Consulting Services Group; Robert Longfield, Consulting Services Group; Jeff Claxton, City Benefits Office; Sharon Lea, City Personnel Office; Michael McMahan, Nelson, McMahan & Noblett; and Teresa Hicks, First Tennessee Bank.

The meeting was called to order by Chairwoman Daisy Madison. A quorum was present.

The minutes of the meeting held July 19, 2007 were approved.

The following pension benefits and plan expenses were discussed for approval:

**ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

<u>COMPANY</u>	<u>AMOUNT PAYABLE</u>	<u>SERVICES RENDERED</u>
FIRST TENNESSEE BANK	\$25,974.85	Custody and benefit payment services for quarter ending June 30, 2007
NELSON, MCMAHAN & NOBLETT	\$1,530.00	Professional services for period March 1, 2007 to June 30, 2007

**INVESTMENT MANAGER**

BRANDYWINE GLOBAL	\$12,326.55	Investment management fee for quarter ending June 30, 2007
DUFF & PHELPS INVESTMENT MANAGEMENT	\$18,959.00	Investment management fee for quarter ending June 30, 2007
INSIGHT CAPITAL RESEARCH MANAGEMENT	\$16,517.19	Investment management fee for quarter ending June 30, 2007
SMH CAPITAL ADVISORS, INC.	\$9,610.20	Investment management fee for quarter ending June 30, 2007
	\$57,412.94	MANAGER TOTAL

**ACCOUNTS RECEIVABLE**

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

**REPORT OF ACCOUNT (S) PAID**

MUTUAL OF OMAHA (Long-Term Disability)	\$9,340.21	Premium for August 2007
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**MISCELLANEOUS ITEMS**

<u>NAME</u>	<u>TRANSACTION</u>
No activity	

2<sup>nd</sup> Quarter Performance Review – CSG

Pat Cox and Robert Longfield from Consulting Services Group presented the 2007 2<sup>nd</sup> quarter performance review to the Board.

Mr. Longfield briefly discussed the volatile third quarter before starting the second quarter discussion. Starting in about mid-July, negative mortgage and asset-backed bonds contributed to negative market performance.

Mr. Cox discussed the second quarter performance. The economy still seems to be growing in the 2.5% range. Employment is also still very strong. The absolute objective, the actuarial assumption of 7.75%, is at 12.3% for three years and 11.4% for five years. This has a lot to do with equity performance over the last three years. Over the last five years, the large cap domestic equities have outperformed the S&P 500 by about 1.3%, the small cap domestic equities have outperformed the Russell 2000 by about 2.6%, the international equities have trailed the broader market, the hedge funds are ahead of their benchmark by about 50 basis points, and the bond market is up about 4.8% versus the index of 4.5%. The total fund is up 4.8% for the quarter. Mr. Cox gave a brief summary of the total investment manager performances as of June 30, 2007. For the most part, the managers are outperforming their benchmarks and performing well versus their peer groups. The majority of the managers are in the top 25% of their peer groups. Mr. Cox explained that the Plan's recent diversification approach has helped it to obtain higher gains among turmoil in the market. Mr. Cox gave a brief overview of the preliminary July numbers for the managers. The managers are doing well amongst a difficult market on the equity side, with a diversification benefit from fixed income and hedge funds.

OPEB Investment Policy & Potential Asset Allocation

Mr. Longfield stated that the draft of the OPEB Investment Policy is still being worked on with Mr. McMahan dealing with state requirements. Mr. McMahan was concerned about what state law would allow. A bill that was passed in the most recent legislative session states that an OPEB Trust can invest in anything a domestic life insurance company can invest in; which is a large category. Mr. Cox stated that CSG has asked their internal counsel to review it and look for certain items like asset classes and limitations.

For discussion purposes, an asset allocation was prepared by CSG. With a beginning portfolio value of \$2,000,000, Mr. Cox thought it would be appropriate to start at 7.75% for an objective target rate of return. The exact asset class constraints for the General Pension Plan were chosen due to the flexibility of minimum and maximum ranges, diversified asset classes, and the allowance for growth of assets. CSG is currently working for the allowance of OPEB to invest in various partnerships based on a clear understanding of the required asset size qualifications that are often required.

Education Day Discussion

Ms. Madison discussed the possibility of the Board holding another Education Day. CSG offered to help from a topic standpoint and finding people to address those topics. Mr. Lamb suggested viewing the agenda from the last meeting. The Board agreed for CSG to prepare a tentative agenda for the

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education day in the next 30 days. This would allow the Board to respond with further recommendations. The Board agreed to discuss OPEB trusts, liability, and accounting rule changes.

Report from Counsel – Mike McMahan

Mr. McMahan stated that he would continue to work on the OPEB issue. Regarding Mr. Walden, Mr. McMahan stated that he would send his letter of recommendation along with a copy of the minutes of the August 16, 2007 Board meeting.

The next Board meeting was scheduled for Thursday, September 20, 2007 at 8:45 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

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Chairman

APPROVED:

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Secretary