

MEETING OF THE TRUSTEES
CITY OF CHATTANOOGA GENERAL PENSION PLAN

May 29, 2014

The regular meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on May 29, 2014 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Steve Perry, Katie Reinsmidt, Erskine Oglesby, and Jeff Cannon. Others attending the meeting were Valerie Malueg, City Attorney's Office; Teresa Laney, First Tennessee Bank; Robert Longfield and Scott Arnwine, Gavion, LLC; Ed Koebel and Alisa Bennett, Cavanaugh Macdonald Consulting; Madeline Green and Cheryl Powell, City Human Resources Department.

The meeting was called to order by Chairwoman Daisy Madison.

A quorum was present at the beginning of the meeting.

Approval of Minutes

Jeff Cannon made a motion to approve the minutes of the April 3, 2014 meeting. Steve Perry seconded the motion. The minutes of the meeting were unanimously approved.

Administrative Actions and FY2015 Budget

Cheryl Powell presented the benefit and plan expenses in the General Pension Plan and OPEB Trust administrative action reports, attached to the end of these minutes.

Steve Perry made the motion to approve the administrative actions. Katie Reinsmidt seconded the motion. These administrative actions were unanimously approved by the Board.

Cheryl Powell presented the General Pension Plan and OPEB administrative budget for fiscal year 2015. First the fiscal year 2014 budget was amended to cover the underestimation in consulting and custodian fees and the shortfall in the LTD premium estimate. The fiscal year 2015 budget reflects increases in custodian fees and in LTD premium payments and the additional item to cover the newspaper ads for the meetings.

Katie Reinsmidt made the motion to accept the FY2015 budget. Erskine Oglesby seconded the motion. The budget was unanimously accepted by the Board.

General Pension Plan and OPEB Valuation Results – Cavanaugh Macdonald

Ed Koebel presented the valuation results for the General Pension Plan. He provided a handout of slides to facilitate the presentation and discussion. After a brief review of the assumptions, particularly the reduction in interest rate assumption in December and closing the amortization period, used in the valuation, Ed stated that the funding status had improved slightly from 88.1% to 88.5% and the annual required contribution had increased slightly from \$7.7m required in the past year budget to \$7.8m required in the current year budget. While the plan is still recovering from the investment losses experienced in 2009, salary increases that affect the level of future benefits have been less than expected and the demographic assumption changes made as a result of the recent experience study provided actuarial gains to the plan that offset the experience losses due to actuarial statement of investments, deaths and the cost of new entrants to the plan. The plan is above average for funding level where the average of similar plans is 71%. Projected over the time horizon of 10 years with an assumed investment return of 7.50%, the trend suggests the annual required contributions are expected to rise over time to a level above 15% of covered payroll in 2018, as the effects of the 2009 investment losses are recovered in the plan, and then begin to decline to the level of the current contribution. This is an improvement over the 2013 valuation where the trended level contributions would exceed 18% in 2018 and remain near that

level in the future. Ed noted that the amortization period for the General Pension Plan annual required contribution had changed from an "open" 30 year amortization to a "closed" period for 2014 of 29 years. Future amortization periods will shorten by one year. The analogy is to paying off a mortgage, so over time the funding of the pension plan should continue to approach 100% with the closed amortization approach. The open amortization approach holds down costs, but prevents the plan from ever reaching full funding.

Alisa Bennett presented the valuation results for the OPEB (other post-employment benefits). The last valuation of OPEB was in 2012. The funding status for the OPEB has improved from 13.5% in the 2012 valuation to 20.1% in the 2014 valuation. The annual contribution has increased slightly from \$12.5m in the prior period to \$12.8m in the current valuation. For OPEB the amortization period remains an open 30 years. This could change in the future as new guidance is anticipated to follow the requirements for pension plan funding. Additionally, asset smoothing techniques have not been used in the valuation because of the small size of the funding, but as assets grow, these techniques could be beneficial in future valuations to mitigate the effect of down cycles. One assumption included in this valuation that does not pertain to pension is medical claim inflation and this factor, for both pre-Medicare and Medicare, is assumed to be higher than the general inflation percentage and does impact valuation results.

Ed and Alisa both mentioned that the funding guidance is separate from the accounting treatment and that accounting disclosures will be more volatile. Additionally, accounting treatment will require the use of a shorter amortization period and other disclosures in the accounting statements.

Erskine Oglesby made the motion to accept the funding rates in the valuations for General Pension and OPEB. Katie Reinsmidt seconded the motion. The motion carried.

OPEB Asset Allocation Review – Gavion

Robert Longfield provided a handout of the OPEB asset allocation study intended to allocate assets to optimize the potential to achieve the required risk adjusted returns. The OPEB fund stands at \$34m and needs to grow to support the future costs while in the current investment environment. The 7.50% assumption will be harder to achieve for this funding. Mr. Longfield presented an overview of the model and assumptions used to arrive at an optimal approach to investing these funds. To do so will require a shorter term outlook of 3-5 years and a different mix of asset classes than that used for the pension plan. Page 8 of the handout provided the recommended reallocation moves and asset class additions to achieve a short term target return of 6 to 7% with the longer term objective of 7.5%.

Steve Perry made the motion to accept the recommended allocation change for the OPEB fund allocation. Erskine Oglesby seconded the motion. The motion carried.

OPEB Statement of Objectives - Gavion

Scott Arnwine presented the proposed changes to the Statement of Objectives document which currently only references the General Pension Plan. To incorporate the OPEB into this document will require change to the title and purpose sections of the document. The investment policies for the two funds would be the same. In the appendix, the target asset allocation could be different for each fund and would be separately specified. The document needs to be modified for the next review (anticipated in August).

Katie Reinsmidt made the motion to accept the proposed changes to the Statement of Investment Objectives document. Erskine Oglesby seconded the motion. The motion carried.

Performance Review 1Q14 -- Gavion

Scott Arnwine provided a review of page 2 of the investment results handout. Mr. Arnwine noted that the returns for the quarter were greater than the actuarial assumption. By comparison with other plans of similar size, the pension plan performed among the top 1/3 of its group. However, there was volatility during the

quarter and a shift in the type of investment investors were seeking. The weather had some impact on the results. Janet Yellen took over as Fed Chairman on February 3. Mr. Arnwine presented a handout showing the performance by sector before and after the March 18 speech by Ms. Yellen. Because of this shift, all of our managers for the most part underperformed against their benchmarks during the quarter.

During the quarter, fixed income fell below its minimum allocation of 20%. No funds were re-allocated; it was a consequence of proportionate growth in the equities. The Board needs to determine whether to make an exception to the policy for the quarter or to move some funds to the fixed income allocation.

Jeff Cannon made a motion to allow an exception to the total fixed income allocation until the next reporting period. Katie Reinsmidt seconded the motion. The motion carried.

Thornburg International has grown significantly; however, there has been a change in the operation of the performance management team and this is the third year of underperformance. Gavion recommends replacing Thornburg, but it will take some time to find another international manager.

Katie Reinsmidt made a motion to move the fund from Thornburg into an index fund until a suitable replacement manager can be found. Jeff Cannon seconded the motion. The motion carried.

Mr. Arnwine also indicated that hedge funds outperformed versus their benchmarks. For Real Estate, the new manager was funded in the middle of the quarter so there are no results to report. For Fixed Income, managers did well overall despite some areas of underperformance. He also mentioned that there is no need to make any change or take any action with regard to Patten and Patten. Part of the company split off to form a new company, however, the management of the City portfolio will not be affected by this change.

Mr. Arnwine directed everyone to page 11 for the OPEB management results. Here he provided some funding recommendations based upon the earlier acceptance of the OPEB allocation review recommendations. Mr. Arnwine recommends funding Aberdeen (emerging market debt) by \$1.7m, Pointer and Ironwood (hedge funds) by \$1.2m each, and to replace Thornburg International with another manager.

Erskine Oglesby made the motion to accept the funding recommendations of Gavion for the OPEB allocations and the similar replacement of Thornburg International by an index fund until a suitable replacement manager can be found. Steve Perry seconded the motion. The motion carried.

Review of Bylaws

Valerie Malueg presented the Board with a revised copy of the bylaws incorporating all of the changes that had been discussed in the last board meeting and a draft of the Resolution that would make the changes effective.

There was some discussion regarding where in Article Four Officers to indicate that the Vice-Chair and the Secretary have the authority to sign documents in absence of the Chair. In Article Six Annual Report, the language should indicate that the submitted report should be the audited annual report. And in Article Ten Indemnification, the language in the last sentence needs to be revised to indicate that the Plan may pay certain legal expenses "on behalf of the trustee".

A version of the document incorporating the additional or changed language will be brought to the next meeting for approval and the adoption of the Resolution will be put to vote.

Report from Counsel

There was nothing to report.

The meeting was adjourned by Daisy Madison.

**CITY OF CHATTANOOGA GENERAL PENSION PLAN
ADMINISTRATIVE ACTIONS**

Meeting of Trustees
May 29, 2014

PART I - PARTICIPANT SUMMARY

SUMMARY OF PENSION PLAN APPLICATIONS

Name	Department	Type	Option	Monthly Amount	Effective Date	DROP	Notes
Campbell, Homer	Public Works	Normal	no	\$2,017.42	4/1/2014	\$85,758.49	
Declue, Raymond	Public Works	Normal	B	\$715.23	5/1/2014		
Drake, Robert	Library	Rule of 80	no	\$2,170.65	3/1/2014		
Frizzell, Larry	Public Works	Normal	B	\$1,046.23	5/1/2014		
Gilles, Phillip	Library	Normal	E	\$1,792.39	3/1/2014		
Roberts, Becky	Public Works	Normal	no	\$2,532.19	3/1/2014		
Smith, Daniel	Airport	Rule of 80	B	\$1,302.23	3/1/2014	\$40,810.22	
Smith, Retonga	Headstart	Normal	A	\$172.44	3/1/2014		
Spruce, Helen	General Government	Normal	no	\$1,722.87	4/1/2014	\$72,838.94	
Staten, John Rodney	Public Works	Rule of 80	C	\$1,757.95	4/1/2014	\$23,362.85	
Thomas, Clarence	Public Works	Normal	no	\$1,289.84	4/1/2014		
Thompson, William Boyd	County 911	Rule of 80	no	\$1,826.33	5/1/2014		
Trevor, Thomas	Human Services	Normal	B	\$445.97	6/1/2014		vested

Count 13

BENEFIT REVISIONS/CONVERSIONS - PENDING BOARD REVIEW/APPROVAL

NAME	TYPE	Option	Previous amount approved	Revised amount	Effective date
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SELECTION OF OPTIONAL BENEFIT REPORT - VESTED OR ATTAINED AGE 62 OR GREATER

NAME	OPTION	Effective Date
Cedric Zachary	B	2/21/2014
Morgan, James	B	2/15/2014
Bales, Archie	A	3/7/2014
Norman, Terri	A	4/29/2014
Gary H. Williams	B	5/2/2014

DISABILITY BENEFIT REPORT

NAME	TYPE	Employee Number	Monthly Disability Benefit Amount	Effective Date	Notes
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LUMP SUM DISTRIBUTIONS (FOR RATIFICATION - CHECKS PROCESSED)

Return of contributions

NAME	Department	Employee Number	Refund Amount	Termination Date	Notes
Brooks, Heather	Finance	67642	\$1,672.92	4/25/2014	
Chubb, Edward	Public Works	56864	\$1,373.81	4/4/2014	
Dodd, Bobby	Public Works	64114	\$1,752.16	2/27/2014	automatic
Foster, Jacob	Public Works	71463	\$437.51	3/6/2014	automatic
Hagen, Virginia Quinn	Public Works	62845	\$3,036.50	12/30/2013	
Harris, Christopher	Human Services	70935	\$454.49	1/27/2014	automatic
Helwa, Amro	Public Works	69038	\$1,758.12	1/3/2014	automatic
Manson, Selena	General Services	72256	\$37.28	1/14/2014	automatic
Murray, Brandon	YFD	66092	\$1,951.60	3/6/2014	automatic
Murray, Harold	Public Works	61265	\$6,976.61	4/25/2014	vested
Rowlee, Chad	General Gov't	67044	\$3,557.49	12/20/2013	automatic
Russell, Christopher	Public Works	67760	\$1,232.90	1/23/2014	
Sheppard, Glenn	Public Works	68570	\$2,285.07	1/19/2014	
Swafford, Scottie	Finance	72374	\$321.24	4/11/2014	

Return of deceased retiree basis

Name	RETIREE NAME	Date of Death	Refund Amount	Notes
Charles R. Wood	Charles E. Wood, Jr.	1/1/2014	\$836.29	
Noel S. Nation	Selma Nation/Hubert T	2/21/2014	\$1,884.99	
Richard West	Shirley Fairbanks	4/19/2014	\$335.72	
Stephen B. West	Shirley Fairbanks	4/19/2014	\$335.72	
Drusilla D. West Cameron	Shirley Fairbanks	4/19/2014	\$335.72	

PART II -- ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Prior quarter total		141,743.12		FY2014
Cavanaugh Macdonald	14,500.00		2/28/2014	1/1/2014 valuations to date
Cavanaugh Macdonald	14,500.00		3/31/2014	1/1/2014 valuations to date
Chattanooga Times Free Press	40.80		3/31/2014	Meeting ad 3/27/2014
Gavion, LLC	25,000.00		3/31/2013	Investment consulting services
First Tennessee Bank	31,615.30		3/31/2014	Administrative expense
COMPANY TOTAL	85,656.10	227,399.22		

Investment Managers -- Fees Paid

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	YTD		
Prior quarter total		245,501.23		FY2014
Patten & Patten	10,948.73		3/31/2014	Investment management fees
NWQ Investment	28,976.85		12/31/2013	Investment management fees
Insight	22,498.30		3/31/2014	Investment management fees
Kennedy Capital Management	14,628.00		3/31/2014	Investment management fees
Chartwell	7,252.03		3/31/2014	Investment management fees
Patten & Patten	11,128.48		12/31/2013	Investment management fees
Wedge Capital	32,105.82		3/31/2014	Investment management fees
MANAGER TOTAL	127,538.21	373,039.44		

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Prior quarter total			

COMPANY TOTAL

REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Prior quarter total		913,954.00		FY2014
Prudential	9,000,000		1/27/2014	reallocation of assets
Insight	100,000		2/27/2014	transfer to pay benefits
Patten & Patten	300,000		2/27/2004	transfer to pay benefits
Thornburg	2,000,000		3/31/2014	partial redemption

MISCELLANEOUS TOTAL **2,400,000.00** **3,313,954.00**

REPORT OF ACCOUNT(S) PAID

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Prior quarter total		44,183.11		FY2014
ING	11,311.35		11/30/2013	Long Term Disability (50%)
ING	11,240.05		12/31/2013	Long Term Disability (50%)
ING	11,146.35		1/31/2014	Long Term Disability (50%)
ING	11,076.96		2/28/2014	Long Term Disability (50%)
ING	14,903.46		3/31/2014	Long Term Disability (50%)
ING	14,770.96		4/30/2014	Long Term Disability (50%)
TOTAL	74,449.13	118,632.24		

**CITY OF CHATTANOOGA OPEB TRUST
 ADMINISTRATIVE ACTIONS**

PART II -- ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	QUARTER ENDING	PURPOSE
Prior quarter total		\$4,733.84		FY2014
First Tennessee	3,072.09		3/31/2014	Administrative Expense
COMPANY TOTAL	3,072.09	\$7,805.93		


Investment Managers -- Fees Paid

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	QUARTER ENDING	PURPOSE
Prior quarter total				
MANAGER TOTAL				


ACCOUNTS RECEIVABLE

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	QUARTER ENDING	PURPOSE
Prior quarter total				
COMPANY TOTAL				

APPROVED:



Chairman



Secretary