MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

February 15, 2007

The regular meeting of the City of Chattanooga General Pension Plan was held February 15, 2007 at 8:45 a.m. at the J.B. Collins Conference Room. Trustees present were David Eichenthal, Daisy Madison, Dan Johnson, Terry Lamb, and newly-elected Katie Reinsmidt. Others attending the meeting were Pat Cox, Consulting Services Group; Scott Arnwine, Consulting Services Group; Donna Kelley, City Personnel Office; Doug Kelley, City Personnel Office; Sharon Lea, City Personnel Office; Michael McMahan, Nelson, McMahan & Noblett; Teresa Hicks, First Tennessee Bank; and Jeff Claxton, City Benefits Office.

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

The minutes of the meeting held January 18, 2007 were approved.

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

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAYABLE	SERVICES RENDERED
INVESTMENT MANAGERS		
DUFF & PHELPS	$22,160.00	Investment management fee for quarter ending December 31, 2006
INSIGHT CAPITAL	$17,528.64	Investment management fee for the period ending December 31, 2006
PATTEN & PATTEN	$9,131.52	Investment management fee for the period ending December 31, 2006.
	$48,820.16	TOTAL

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	PURPOSE

No Activity

REPORT OF ACCOUNT (S) PAID

HARTFORD LIFE AND ACCIDENT INSURANCE CO. (Long-Term Disability)	$12,651.00	Premium for February 2007

MISCELLANEOUS ITEMS

NAME	TRANSACTION

No activity

Annual Meeting & Election of Officers

Mr. Eichenthal opened the floor for nominations of Chair, Vice Chair, and Secretary. Mr. Eichenthal currently holds Chair, Ms. Madison holds Vice-Chair, and Mr. Levi holds Secretary. Mr. Johnson made motion to elect Ms. Madison to Chair. Mr. Lamb made a second. The Board unanimously agreed. Ms. Madison thanked Mr. Eichenthal for his years of dedicated service and leadership to the Board. Ms. Reinsmidt moved to elect Ms. Smith to Vice-Chair. Mr. Johnson made a second. The Board unanimously agreed. Mr. Johnson made motion to elect Mr. Levi as Secretary of the Board for another term. Mr. Lamb made a second. The Board unanimously agreed.

2007 Cost of Living Raise

Ms. Kelley informed the Board of an error related to the Plan's retirees and their 2007 cost-of-living raises. The monthly benefit of the General Pension Plan retirees is posted as taxable and non-taxable (participant contributions into the Plan prior to 1993 were post-tax). SEI, who processes monthly benefit payments for First Tennessee, applied the 3% cost-of-living adjustment to the gross benefit effective January 1, 2007. However, the non-taxable portion was added to the new gross benefit on the January 31, 2007 benefit. This resulted in an overpayment. About 80% of the checks were incorrect. The retirees were overpaid by an amount of $12,617.80.

First Tennessee has offered three options. They can allow affected retirees to keep the overpayment (a loss to First Tennessee), reduce the monthly retirement benefit of those affected by the applicable overpayment in March 2007, or reduce the monthly retirement benefit of those affected in increments for up to three months.

The administrative staff felt the best option was to send a letter to the pensioners explaining the mistake. Mr. Lamb suggested that First Tennessee correct the draft letter and referenced the amount previously sent to the retirees by the City of Chattanooga. He also felt that the letter should make a simple, clear one-time correction on the next paycheck. Ms. Madison agreed to have First Tennessee draft a new letter for each retiree explaining the situation, the amount of error, and that the recoup of error would take place in February's check.

Disability Coverage on Civilian Employees

Ms. Madison informed the Board with information provided by Jeff Claxton from the City's Benefits Office on Long-Term Disability coverage for civilian employees. This matter was bid on last month and was approved by City Council with the lowest and best bid transferring our current carrier, Hartford, to Mutual of Omaha. The total long-term disability insurance premium was reduced from a rate of .61 to .45 per $100.00 of value. The General Pension Board's 50% share of this premium amounts to a rate of 0.225 per $100.00 of value. This rate resulted in an estimated premium of $115,000. Ms. Madison made motion to approve this matter and the Board unanimously agreed.

Quarterly Performance Review

Mr. Cox introduced the fourth quarter 2006 performance review to the Board. 2006 was a good year for investors as nearly every index was positive. Overall, the Plan had a strong year and was up 13.6% for the year. Long-term performance for the Plan continues to exceed the actuarial assumption. Several equity managers topped their appropriate benchmarks for the year, including Patten & Patten (large-cap growth), Insight Capital (small-cap growth), and Thornburg (international equity). Alternative investments helped the portfolio as hedge fund investments returned 10.8% and real estate was up 36.8%. While fixed income investments did not perform as well as stocks and alternatives, the fixed income investments in the Plan returned 6.1% compared to 4.3% for the Lehman Brothers Aggregate Bond Index. The Plan's allocations to high yield and global fixed income contributed to this performance.

<u>Fixed Income Allocation</u>
Asset allocation for the Plan was discussed. CSG recommend trimming the REIT allocation based on the tremendous gains over the past few years, including a 12% gain in the first 45 days of 2007. In addition to reducing REIT's, CSG recommended lowering the fixed income allocation to 20%, reducing small-cap equity to 12% while increasing the alternative investment allocation to 12-13%, and international equity to 15%. The Board decided until the next meeting to decide on these changes.

<u>Annual Manager Review</u>
Mr. Cox presented to the Board the Large Cap Manager Performance review. He reviewed Ark Asset Management, Patten & Patten, and NWQ large cap equity managers.

Ark Asset Management, based in New York, NY, has shown poor performance for 2006. The trailing three year peer group ranking fell in the 84.5% rank. CSG recommended to the Board that it replace Ark Asset. CSG can do a search process to find another manager. Mr. Cox made motion to remove Ark Asset based on both performance and a concern that the investment process has changed. Ms. Reinsmidt made a first and Ms. Madison made a second. The Board unanimously agreed.

Patten & Patten, located in Chattanooga, TN, has outperformed the Russell 1000 Growth for the trailing one, three, five, and seven year periods. They have performed in the 18^{th} percentile, or better, of the universe for the trailing one, three, five, and seven year periods. CSG recommended retaining Patten & Patten.

NWQ, located in Los Angeles, CA, has outperformed the Russell 1000 Value for the trailing three, five, and seven year periods. Their percentile ranking was no lower than the seventh percentile or universe for all trailing periods beyond one year. 2006 performance of 17.6% was above median but below the index which was in the top 5% for the year. NWQ outperformed its index in calendar years 1999 thru 2005 and underperformed in years 1998 and 2006. The rolling three year returns were consistently above universe median and index returns. CSG recommended retaining NWQ.

Mr. Cox brought up an earlier e-mail that Mr. Longfield distributed to the Board concerning a broker dealer in which CSG owns and provides brokerage services to its clients and others including commission recapture programs similar to how the Plan uses CAPIS. One of the additional services provided by CSG's broker dealers is educating managers about electronic communication crossing networks ("ECNs") to help them lower their overall trading costs. It has been brought to Mr. Longfield's attention recently that one of the managers the Plan employs, Thomson Horstman &Bryant, makes use of an ECN platform at times for certain of their accounts including the THB funds in which the Plan is invested. The commission rate for which THB pays to trade through the ECN platform introduced by CSG's broker dealer is 1.5 cents per share which is equivalent to the lowest rate the Plan receives through CAPIS. CSG's broker dealer receives a portion of the 1.5 cents from this ECN platform and thus benefits from the trades that THB executes through this ECN. As the Plan's investment with THB is through their commingled funds, the ECN transactions for the THB funds are not directly for the Plan's account. CSG's goal is to disclose any arrangements that which could be viewed as a potential conflict. The benefits that CSG's broker dealer derives from its introductory relationships with ECNs do not impact CSG's views in servicing the Plan's account as they have recommended several reductions to THB's allocation over the past 18 months. However, CSG wanted to bring this item to the Board's attention particularly in view of the past issues that the Board has experienced with their prior consultant. The Board appreciated the disclosure and felt that electronic trading benefits the Plan through better execution and lower commission costs overall.

<u>Report from Counsel</u>
Mr. McMahan reviewed the fee structure of Brandywine Asset Management. He expressed this was customary.

Final Discussion

Ms. Madison expressed her appreciation to the newly elected Board members and their enthusiasm at the meetings.

The next board meeting was scheduled for Wednesday, March 28, 2007 at 11:00 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

____
Chairman

APPROVED:

____
Secretary