MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

March 28, 2007

The regular meeting of the City of Chattanooga General Pension Plan was held March 28, 2007 at 8:45 a.m. at the J.B. Collins Conference Room. Trustees present were Daisy Madison, BettyeLynn Smith, Katie Reinsmidt, and Terry Lamb. Others attending the meeting were Pat Cox, Consulting Services Group; Robert Longfield, Consulting Services Group; Donna Kelley, City Personnel Office; Sharon Lea, City Personnel Office; Michael McMahan, Nelson, McMahan & Noblett; Steve McNally, First Tennessee Bank; and Jeff Claxton, City Benefits Office.

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

The minutes of the meeting held February 15, 2007 were approved.

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

ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAYABLE	SERVICES RENDERED
CITY OF CHATTANOOGA	$25,000.00	Reimbursement of administrative costs to the City of Chattanooga for fiscal year 2007
CONSULTING SERVICES GROUP	$16,225.75	Professional services for quarter ending March 31, 2007
FIRST TENNESSEE	$24,944.21	Custody and benefit payment services for quarter ending December 31, 2006
NELSON MCMAHAN, & NOBLETT	$1,365.00	Professional services for period October 2006 through February 2007

INVESTMENT MANAGERS

ARK ASSET MANAGEMENT	$26, 702	Investment management fee for the period ending December 31, 2006
	$26,702	MANAGER TOTAL

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	PURPOSE
No Activity		

REPORT OF ACCOUNT (S) PAID

MUTUAL OF OMAHA (Long-Term Disability)	$9,326.61	Premium for March 2007

MISCELLANEOUS ITEMS

NAME	TRANSACTION

No activity

Presentation of New Managers to Replace Ark Asset Management

Mr. Cox and Mr. Longfield, from Consulting Services Group, presented the Large Cap Growth Equity Manager Search to the Board. Mr. Cox handed out a pamphlet containing the research advisory board manager review process.

He explained that the Board terminated Ark Asset at the last meeting in February and transitioned the portfolio into an ETF large-cap growth one. The next step is to go through a search process and take the names from this process and decide who to interview.

Mr. Cox referred to the large cap growth level 1 screening process. CSG started the process with over 2,700 companies in the overall US equity universe. In level 1, CSG eliminated managers from the mid-cap and small-cap space, closed product, managers without at least three years of history, assets under $1 million, long-short managers, managers with REIT strategies, and managers with Passive, Enhanced, Value, and Core Strategies. CSG next looked at the benchmark excess return. This is a long-term look at what we want to see from an excess return versus the index. The screen was set at 5.5%. The last screen is the benchmark R-Squared. We want to make sure the style of management is consistent with the Russell 1000 growth index. In the rolling three year batting average, we are looking for managers with a batting average of 65% or better. In the rolling three year excess return, we are looking for managers with an excess return of 5.5% or better. In the market capitalization, we wanted the average capitalization to be $20 billion or higher. Mr. Cox described that within the database, sometimes you have certain managers who report late or haven't updated each quarter. CSG went back and included 10 managers in the overall process. The total managers passing level 1 were 37.

Mr. Cox referred the Board to the manager summary and indicated the four managers that had been chosen to review to the Board. They were Wells Capital, INTECH, Aletheia, and Atalanta Sosnoff. Under the qualitative characteristics, none of the managers had changes in ownership, investment professional changes, significant changes in firm/strategy assets, changes in investment philosophy, or regulatory issues. Mr. Cox described the quantitative characteristics for the four managers. The trailing three year return versus the index for each manager gave nice excess returns across the board. The trailing three year peer group ranking (the lower the number the better) all placed in the top 5% within the peer group in the trailing three year period and all carried out into the five year period. All the managers achieved 100% in the rolling three year return batting average versus the index. A style check, the correlation versus the index, we want to have something between 0.75 and 1.0 range to know that they are highly correlated to a particular asset class that we are looking to fill. Also, all of the managers were able to outperform in the down market and preserve capital in the five-year statistical analysis.

Aletheia Research & Management, Inc. – Aletheia Growth Portfolio

Mr. Cox gave a background of Aletheia. They have about 35 to 50 stocks in their portfolio and try to anticipate investor reaction as opposed to reacting to investors. This is a very rigorous analysis on insider trading. They like to look for significant company share buy-backs reducing the number of shares outstanding as well as strong investments by the companies' key personnel. They use a lot of outside forensic accounting research to aid in the evaluation of the balance sheet and income statements. Mr. Longfield commented that Aletheia has been the top manager recently.

Atalanta Sosnoff Capital, LLC – Large Cap Equity

This company is celebrating three decades of investment management. They have a solid firm with continuity in management. Their investment strategy is designed to achieve superior returns for their clients through up and down markets as well as growth or value periods. They seek to invest in companies entering or in a cycle of accelerating earnings growth. Mr. Longfield commented that Atalanta has had good performance over the past few years.

Enhanced Investment Technologies, LLC – INTECH Broad Large Cap Growth

This company, a part of Janus, has investment strategies that are based on a rigorous mathematical theory that is the result of research done by Dr. Robert Fernholz. INTECH's process searches for stocks with high relative volatility and low correlation to build portfolios whose total return will exceed the return of the component stocks. Since INTECH's investment process is not fundamental in nature, no fundamental research analysts are employed. This company has a 100% quantitative process. The volatility of the market is played and is constantly rebalanced. This strategy has been very consistent for a long time. Mr. Longfield remarked that the only time when the process did not perform well was when the market was very concentrated. The listed fee in the pamphlet, stated at 55 bps, was lower than the other three managers because of the fact that INTECH has a commingled trust. Mr. Longfield commented that INTECH had medium performance compared to the other managers recently and trailed the benchmark through a tough year.

Wells Capital Management Incorporated – Fundamental Large Cap Select Growth Equity

This company uses a strategy that employs both proprietary screens and intensive grassroots research to identify high-growth companies they feel will outperform their peers over the next 12 to 18 months. The team's investment policy is rooted in the belief that successful investing is the result of focusing on companies with favorable underlying fundamentals, strong growth potential, solid management teams, and reasonable valuations. Mr. Longfield commented that Wells had a weak year last year.

Decision

The Board decided to review Atalanta Sosnoff and Wells Capital in the May Board meeting. Mr. Cox confirmed that the Ark termination was valued at about $16 million.

Portfolio Target Allocation Adjustments

Mr. Cox confirmed that the fixed income was below the current stated minimum at the last meeting. CSG put together recommendations for rebalancing the portfolio as opposed to making significant swings in asset allocation. The charts given in the presentation presented the thought processes in different markets where CSG saw the newer allocation vs. the current allocation in the asset allocation model and gave examples of the potentials of the recommended portfolio. Under fixed income yields and returns, Mr. Cox gave a brief description of the broad market sector and the impact of yields going up with the impact they have on price. There is not a lot of return opportunity to get out of the bond portfolio given current bond yields.

For investment policy changes, Mr. Longfield stated that the recommendations were to bring the domestic fixed income down to 20% from 25%. Mr. Cox also asked for the international maximum to be moved to 20% to allow for appropriate room for appreciation.

For capital movements, Mr. Cox suggested moving from a target of small cap weighting of 15% and moving it toward a target of 10%. He stated that CSG had been trimming this part of the portfolio since 2005 due to the high valuations in small cap relative to large cap stocks. To sum up equity allocation and recommendations, Mr. Cox stated the Board should lower the small cap target from 15% to 10% and raise the international target allocation from 10% to 15%. In the hedge fund portfolio, a modest allocation from 10% to 13% was recommended.

Mr. Longfield stated that these are all minor adjustments and improve the probability in achieving the Plan's objectives. Mr. Cox stated that the while there are no performance guarantees, and past performance is not indicative of future results, the changes in the asset allocation could potentially increase the overall performance of the Plan while modestly reducing the expected standard deviation.

Ms. Madison asked if there was a motion to adopt the revised document of recommendations made by CSG for the portfolio target allocation. Ms. Smith made a first and Ms. Reinsmidt made a second. Mr. McMahan suggested for CSG to revise the document for formal approval along with the actual dollar movements for the next Board meeting in May. The Board unanimously agreed.

OPEB Trust Discussion

Ms. Madison brought to the Board's attention that the Governmental Accounting Standards Board (GASB) had implemented a new standard dealing with how the City of Chattanooga accounts for health benefits and other post employment benefits for retirees. GASB is now requiring us to account for this during the life of the employment. Ms. Madison stated that the City has not been doing this. The Plan had an actuarial valuation done recently that suggested an unfunded liability. This liability ranges from $140 to $240 million, and when amortized over 30 years with an annual required contribution estimates to $15 to $21 million dollars. The City Council elected to establish an OPEB Trust to prefund retiree benefits. An investment committee needs to be appointed, and we would like to have the General Pension Board serve as the Board of Trustees for the OPEB Trust, Ms. Madison stated. Mr. McMahan stated that this investment of OPEB funds would be slightly more restricted than on pension investments. The Board would come up with an asset allocation consistent with state law and probably use a lot of the same money managers used with the pension fund. There will also be an investment policy.

Mr. Lamb made motion to approve this matter and Ms. Reinsmidt made a second. The Board unanimously agreed to act as the Board for the OPEB Trust.

Notice of OPEB Trust Resolution Adoption

On April 10, 2007, in the City Council meeting, the following Resolution No. 25080 was adopted:

RESOLUTION NO. 25080

"A RESOLUTION ESTABLISHING AN INVESTMENT TRUST FOR THE PURPOSE OF PRE-FUNDING OTHER POST-EMPLOYMENT BENEFITS AS PROVIDED IN TENNESSEE CODE ANNOTATED, TITLE 8, CHAPTER 50, PART 12, SUBSTANTIALLY IN THE FORM ATTACHED HERETO AND INCORPORATED HEREIN BY REFERENCE."

The next Board meeting was scheduled for Thursday, April 19, 2007 at 8:45 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

____
Chairman

APPROVED:

____
Secretary