MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

April 21, 2010

The regular meeting of the City of Chattanooga General Pension Plan was held April 21, 2010 at 8:45 a.m. in the City Hall Finance Conference Room. Trustees present were Daisy Madison, BettyeLynn Smith, Katie Reinsmidt, Dan Johnson, and Terry Lamb. Others attending the meeting were Valerie Malueg; City Attorney's Office; Sharon Lea, City Personnel Office; Teresa Hicks, First Tennessee Bank; Steve McNally, First Tennessee Bank; and Todd Gardenhire, SmithBarney.

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

The minutes of the meeting held March 18, 2010 were approved.

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

PART I –ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID THIS PERIOD	YTD	PURPOSE
No Activity			
FYTD COMPANY TOTAL	$0.00	$158,825.31	

INVESTMENT MANAGERS (does not include direct bill thru First Tennessee)

COMPANY	AMOUNT PAID THIS PERIOD	YTD	PURPOSE
ATALANTA SOSNOFF	$29,057.00		Investment management expense for period ending March 31, 2010
NWQ INVESTMENT MGT.	$23,736.72		Investment management expense for period ending December 31, 2009
PATTEN AND PATTEN, INC.	$8,717.23		Investment management expense for period ending March 31, 2010
SMH CAPITAL ADVISORS	$8,230.73		Investment management expense for period ending December 31, 2009
WEDGE CAPITAL MGMT.	$18,138.86		Investment management expense for period ending March 31, 2010
FYTD MANAGER TOTAL	$61,024.45	$389,152.04	

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT PAID THIS PERIOD	YTD	PURPOSE
No Activity			

REPORT OF ACCOUNT (S) PAID

COMPANY	AMOUNT PAID THIS PERIOD	YTD	PURPOSE
HARTFORD	$8,225.93		Long-Term Disability (50%) – March 2010
FYTD LTD TOTAL	$8,225.93	$89,440.93	

Approval of Minutes & Administrative Issues

The Board discussed approval of the minutes from the meeting held March 18, 2010. Mr. Johnson moved to approve the minutes and Mr. Lamb made a second. The Board unanimously agreed.

Ms. Lea reported the administrative actions for the month of March 2010. Mr. Lamb moved for approval and Mr. Johnson made a second. The Board unanimously agreed.

Report from Counsel

Ms. Malueg distributed the current OPEB (Other Post Employment Benefits) and General Pension Plan Statement of Investment Objectives. She stated that these policies are to be re-adopted each year by December 31st. She suggested that the Board review these policies and their plan documents. She spoke with Frank Karney of Memphis, Tennessee, and stated that post-employment benefits are not to be considered protected property rights unless there is something to the contrary in the Plan's code or document. She also suggested that the Board wait until the Consultant RFP process was completed before re-adopting the policies.

Ms. Madison presented a recommendation from CSG concerning the OPEB cash account. It consisted of 42% in cash at year end. If the committee wished to be fully invested, $2M should be allocated to the following:

$500k to Atalanta Sosnoff
$500k to NWQ
$250k to Thornburg
$750k to Brandywine

Ms. Reinsmidt made motion to approve the OPEB allocations and Mr. Lamb made a second. The Board unanimously agreed.

Consulting Services RFP Interviews –The Bogdahn Group, Gray & Company, Merrill Lynch, and CSG

Bogdahn Group (Orlando, FL) – Joe Bogdahn

Mr. Bogdahn gave a brief presentation to the Board. He stated that he and Mike Welker would be the primary consultants working on the account. He emphasized they were an Independent Investment Advisory Firm and 100% employee owned. After reviewing the Plan's Investment Policy Statement, he offered that it should state the Plan prohibit any fee sharing arrangements, etc. He referred to the Department of Labor and SEC's tips for plan fiduciaries and emphasized the Bogdahn Group has been advocates for this since their inception. They have no affiliations with any of the Plan's current investment managers. He stated they charge a hard dollar fee only and always act as a fiduciary to their clients, who they view as partnerships. As a differentiator, the group truly cares for their clients. First, an education session should take place so a program can be created. The first year fee is firm ($125,000) due to travel expenses and getting the Plan up to speed. The second and third year fees are negotiable. He stated the investment policy statement was too broad and too specific toward the Board. He suggested making the policy more general in respect to the Board's responsibilities and more specific in regard to the investment managers' responsibilities. He also suggested that the consultant be listed as a fiduciary to the Plan. He spent a few minutes discussing an "All-Cap" strategy that he felt would complement some of the core holdings in the Plan and increase out-performance. He presented a proposed portfolio allocation for the Board's review. Ms. Madison asked Mr. Bogdahn to confirm that that consulting services were all the firm was involved in and that it did not include any soft dollar fees. Mr. Bogdahn stated his firm is a fiduciary to every client their firm has ever been involved with in any other business activity. He also stated that Merrill Lynch tried to purchase his firm a few years ago. While in their offices, he still thought the Bogdahn Group's business model would beat theirs, simply because they accept fiduciary responsibility and Merrill Lynch did not. Mr. Lamb requested to see the study concerning improved performance when there are no conflicts of interest. Ms. Reinsmidt referred to the "All-Cap" investment approach and asked how the investment objectives are followed when this responsibility is placed on the managers rather than the consultants. Mr. Bogdahn stated that the managers have a proven process for finding value or opportunity, which takes the burden off the board.

Gray & Company (Atlanta, GA) – Larry Gray, Elizabeth Crenshaw, and Bob Hubbard

Mr. Gray stated that 80% of their business is in public funds. Two of their clients have been nominated for finalists in the 2010 Small Public Pension Plan of the Year, one of which actually won. He stated that Gray & Company accepts full responsibility and seeks to add value. They are completely independent investment consultants with hard dollar only fees. Ms. Crenshaw discussed the manager selection process and the roles the different staff members would have. Mr. Hubbard discussed a proposed transition plan for asset allocation, the investment policy statement, investment manager search, and the investment policy implementation. Mr. Gardenhire asked if the firm would conduct the transition internally or hire an external group. Mr. Gray stated they would like to handle it internally, but would probably utilize an outside firm. Mr. Gardenhire asked if they viewed the use of derivatives in transition management as a conflict to the investment policy statement. Mr. Gray stated that if it was against the policy or a local or state law, then the transition management team would be informed. Mr. Gray stated that they would be flexible on the annual fee.

Merrill Lynch (Chattanooga, TN) – J. Kevin Stophel and Garry Bridgeman

Mr. Stophel and Mr. Bridgeman gave a brief presentation to the Board. Mr. Bridgeman discussed Merrill Lynch's history of the Institutional Consulting Group. This group offers over 35 years of institutional expertise, innovation, and resources to help clients strike the right balance of risk and return to effectively manage and grow their portfolios. He said there were about 70 designated Institutional Consultants across the country who act as either consultants or financial advisors to their clients. They currently have over 680 clients with more than $65B in total assets. He emphasized that the Plan would be able to access more managers with Merrill Lynch than with other consultants due to the Plan size. Mr. Lamb asked if he could provide an idea of the measure of added value or performance over a long time period. Mr. Bridgeman discussed various strategies they used to benefit from various scenarios. Mr. Gardenhire asked if he would elaborate on the firm's consulting business, the firm's transitional management process, and clarify their position of fiduciary status. Mr. Bridgeman stated their investment management process is totally separate from Merrill Lynch's consulting business and any additional compensation would be agreed upon by the Board. Transition management would be completed by an outside firm and it was their responsibility to act in a prudent manner in the dealings they have, which will be fully expressed in the Plan's contract. He then referred outsourcing and stated it was their responsibility to act as fiduciaries to drive the Plan's performance and outperform the benchmark. He said they are a research driven organization. He discussed an estimated portfolio for the Plan with a return of around 9% compared to actual returns of 3.57%. Mr. Lamb asked if there were any additional data that could be provided to support this higher rate of return. Mr. Bridgeman stated they would prepare something for the Board to review.

Consulting Services Group (Memphis, TN) – Robert Longfield and Scott Arnwine

Mr. Arnwine presented preliminary performance results for the first quarter 2010. The total plan was up 4% for the 1st quarter and up 35% for the trailing one year. SMH, a high yield fixed income manager, is up 83% for the trailing one year. Duff and Phelps, a REIT manager, is up 105% for the trailing one year. Brandywine, a global fixed income manager, is up 26.5% for the trailing one year.

CSG has been with the City since June 2003. He stated the total fund is up 6.4% since this date versus 5.8% for the S&P 500 and 4.6% for the Barclay's Agg. The plan has made approximately $80M in investment returns with net outflows of about $38M. Mr. Longfield stated he thought their work together has been positive due to increasing the plan size and lowering the risk structure of the portfolio. He also stated he wanted to make sure they address any questions the Board may have relating to the SEC or the NY issues. He referred to the start of CAPIS for the commission recapture program, educational sessions with the committee, and an asset allocation study.

Mr. Longfield stated the investment professionals meet quarterly to discuss performance results and make adjustments. An expected return of 7.2% has been projected for the next three to five years based on the Plan's current portfolio and allocations. With an actuarial assumption of 7.75%, he stated there were some adjustments to be made in the future:

Terminate Duff & Phelps
Terminate SEIX

From the proceeds of these two allocations, the Plan can hire one or two distressed debt fund managers. In the long term, he advised the Plan to terminate Insight due to the volatility of the manager.

He stated CSG has been proactive in making suggestions or changes to the Plan's portfolio. They have a large amount of Tennessee plans and have been very involved with other OPEB plans. Any issues that have come forward have been dealt with and anticipate being resolved. He stated that all investment professionals have a role in the research process and have research directors for every asset class. Mr. Lamb asked him to give the Board a brief review of the Plan's performance compared to similar Plans. Mr. Longfield said there were similar plans that returned anywhere from 16% to 30%. The City returned 22% last year. Plans returned less if they were heavy in private real estate and more if they were heavy in the high yield space. Mr. Lamb referred to the previous discussion on the "all-cap" approach and asked CSG to comment. Mr. Longfield stated that certain "all-cap" managers do well at certain times and thought we were going into one of those time periods. He stated they make more sense for plans smaller than the City's to overweight small cap managers.

Board Discussion

The Board discussed the presentations made by the four consultants. All agreed that performance related to peer groups should be presented in more detail. Mr. Johnson stated that regardless of whether the Board changed consultants, they should conduct a review every five years. He also stated he liked the Bogdahn Group presentation. Mr. Lamb said a change can be very disruptive and that the issues associated with CSG did not bother him. He said he liked Gray and Company, and was concerned about the "all-cap" approach suggested by the Bogdahn Group. Ms. Reinsmidt stated she thought this approach seemed easier for the consultants. Ms. Madison suggested the City Attorney's office provide more information regarding the legal issues with CSG.

The next board meeting was scheduled for May 20, 2010 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