

**MEETING OF THE TRUSTEES**

**CITY OF CHATTANOOGA GENERAL PENSION PLAN**

**May 31, 2007**

The regular meeting of the City of Chattanooga General Pension Plan was held May 31, 2007 at 8:45 a.m. at the J.B. Collins Conference Room. Trustees present were Daisy Madison, Katie Reinsmidt, David Eichenthal, Dan Johnson, and Terry Lamb. Others attending the meeting were Robert Longfield, Consulting Services Group; Scott Arnwine, Consulting Services Group; Sharon Lea, City Personnel Office; Donna Kelley, City Personnel Office; Michael McMahan, Nelson, McMahan & Noblett; Teresa Hicks, First Tennessee Bank; and Jeff Claxton, City Benefits Office. Representatives from Wells Capital and Atalanta Sosnoff also attended the meeting later to give presentations of their firms.

The meeting was called to order by Trustee Dan Johnson. A quorum was present. Chairwoman Daisy Madison joined a few minutes later and presided.

The minutes of the meeting held March 28, 2007 and April 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>
EFI ACTUARIES	\$18,123.28	1/01/2007 Actuarial Valuation
FIRST TENNESSEE	\$27,755.64	Custody and benefit payment services for quarter ending March 30, 2007
 <b><u>INVESTMENT MANAGERS</u></b>		
ARK ASSET MANAGEMENT	\$19,747.00	Investment management fee for the period ending March 31, 2007
DUFF & PHELPS	\$22,883.00	Investment management fee for the period ending March 31, 2007
INSIGHT CAPITAL	\$17,892.57	Investment management fee for the period ending March 31, 2007
PATTEN & PATTEN, INC.	\$9,516.10	Investment management fee for the period ending March 31, 2007
SMH CAPITAL ADVISORS, INC.	\$9,624.38	Investment management fee for the period ending March 31, 2007
		\$79,663.05 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)	\$4,417.11	Premium for May 2007 (May 2007 invoice reduced from \$9,295.74 due to overpayment of \$4,878.63 in March 2007)
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## MISCELLANEOUS ITEMS

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

### Administrative Budget

The Board reviewed the administrative budget prepared for FY 2008. The Board agreed to defer any action on the budget until the next meeting, when two different budgets could be submitted for administrative and OPEB budget purposes.

### 2007 First Quarter Performance Review

Robert Longfield, from CSG, began the presentation for the first quarter 2007 performance review. January started off strong with volatility picking up in February and March. Today, corporate profits are still performing well. The bond market is a bit more "bearish," with the stock market being a bit more "bullish." We need to stay at our minimum position in Fixed Income and possibly look at more alternatives. He stated that the Plan is in the high end of high yield exposure, but there are other possibilities in the bond market. Overall, the fixed income portfolio has performed well and has turned around and outperformed regular investment grade bonds.

Mr. Longfield described the stock market performance for the first quarter. When market volatility picked up, the areas of materials, utilities, and telecom did well. Growth and value remained the same for the quarter with a move toward growth stocks in March. THB has been a source of capital as far as reducing the Plan's allocation in the small cap exposure. Mr. Longfield stated that CSG is currently in favor of the large cap market and reducing the market weight in small cap exposure would be the appropriate allocation.

Mr. Longfield referred the Board to the report that was handed out to the Board. He pointed to the section where the March 31, 2007 allocations were made and stated there were currently no policy violations. The total fund is up 2.3% for the quarter. One manager trailed for the quarter, which was THB.

Mr. Arnwine started the presentation on manager performance. He stated that the Plan had good representation across the board in terms of asset classes and Real Estate was in the top performing classes. The hedge funds benefited from the volatility in the first quarter. In April alone, the total fund is up 2.7% and every group outperformed their benchmark.

### Reduction Allocation Recommendation

Mr. Longfield commented on the Russell Growth Index fund. He stated that now is probably time to consider an active value alternative to the Russell 1000 Value. He stated that CSG recommended pulling 2.4 million from Duff and Phelps to fund Pointer for July 1, 2007. Mr. Eichenthal made motion to approve this transaction and Mr. Johnson made a second. The Board unanimously agreed.

Atalanta Sosnoff Presentation – Craig B. Steinberg

Mr. Steinberg, the President and Director of Research of Atalanta Sosnoff Capital, presented an overview of the firm to the Board. The firm, founded 31 years ago by Martin Sosnoff, manages approximately \$6.6 billion in assets. The firm, regardless of size, is a single product single focus firm. All efforts and resources are dedicated to the client's product. The firm is growth-oriented and focused on earnings acceleration in large cap stocks. He stated that the firm is a growth investor and they want to own companies when their growth rate of earnings is improving. This is a powerful investment tool and can work in a variety of environments. He then described the stock selection process and its three research steps. When stocks reach their target prices, the firm sells them to make room for other stocks. Also, they sell stocks when earnings disappoint. He stated that within the portfolio construction, the firm may raise cash to preserve assets during adverse environments or when insufficient stocks meet their criteria. In summary, Atalanta has a very unique style within the growth world, earnings acceleration that can produce fixed stock price moves which work even when growth stocks are not in favor, a very pragmatic approach to implementing these ideas into your portfolio, and an investment team that are equity stake-holders in the firm inclined to do a good job for their clients over the long term.

Wells Capital Presentation – Ozo A. Jaculewicz & Ann Demetler

Ms. Demetler started the presentation by giving a brief background of Wells Capital. It is a wholly owned subsidiary of Wells Fargo Bank. It was formed in 1996 from existing investment management teams that have been in place since the early 1980's and has grown to offer a full range of investment strategies through a series of successful mergers and acquisitions. Total assets under Wells Capital management total \$193.2 billion as of March 31, 2007. The firm believes that they are offering a talented investment team with a multi-boutique model.

Mr. Jaculewicz, the product specialist for the team, gave a brief presentation. He stated that it is a primary job of his to keep their team in the office managing stocks. He stated that growth has been out of favor for about seven years. In the late 90's, the growth style beat the value style on a cumulative basis by 74%, but since 2002, the current value has outperformed growth by 109%. Now is a good time to be looking at asset classes that are a little out of favor. We consider ourselves a true growth manager. We do fundamental bottom-up research which is designed to "Surround the Company." He stated that the team managing this portfolio is managing \$13 billion dollars, of which \$3 billion is dedicated in small and mid cap assignments. This team looks at the income statement to understand future earnings, but looks even more deeply into the balance sheet. The team looks at risk and compares valuations of companies to trim stocks as they approach the valuation target. It also constructs portfolios to balance return vs. risk. He finally described the five steps of the investment process.

Discussion

Mr. Longfield stated that Atalanta was closest to Patten & Patten, but the correlations were basically the same between the two managers. Wells has a "big institutional" feel, and Atalanta has been around for a very long time. In this particular strategy, both managers have about the same amount of money. Mr. Longfield also felt that Atalanta would negotiate their fee structure down. He talked about future performance and gave a few scenarios. If growth dominates value, he said, Wells Capital would outperform Atalanta. If you get into a negative market environment, he said, Atalanta would outperform Wells Capital. Wells could have more quarter to quarter volatility with a more concentrated portfolio.

Mr. Eichenthal stated that he would like to defer voting on a manager until the Board could further discuss an active/passive approach, unless the rest of the Board was ready to vote today. The Board asked Mr. Longfield if it were his recommendation would he go with Atalanta Sosnoff. He stated that he was comfortable with both managers and preferred active management.

Mr. Lamb made motion to approve Atalanta Sosnoff as the new manager. Mr. Johnson made a second. After further discussion, the Board agreed to carry Atalanta Sosnoff with one vote no, Mr. Eichenthal.

Mr. Longfield stated that Atalanta Sosnoff would be funded by \$17 million from the Russell 1000 Growth Index fund plus \$6.5 million from THB. Mr. Johnson made motion to approve the funding to the new manager. Mr. Lamb made a second. The Board agreed to the funding with one vote no, Mr. Eichenthal.

Report from Counsel

Mr. McMahan brought forth the amended Exhibit A of the Asset Allocation Ranges and Targets based upon the recommendation of CSG two months ago. He stated that the Board should examine it along with the Statement of Investment Objectives since it had not been revised in several years. He thought the Board should readopt a whole strategy by the next meeting and make sure this was the same one it would like to keep.

The City Council voted on the first reading to adopt the OPEB provisions as an ordinance. Mr. McMahan passed out the ordinance for the Board to view and the resolution to authorize the Chair and Vice-Chair to set up the separate account with First Tennessee. Mr. Johnson made motion to adopt the resolution and Ms. Reinsmidt made a second. The Board unanimously agreed.

Mr. McMahan brought forth a third resolution authorizing the Chair to execute an amendment to the agreement with CSG to provide financial consulting services with respect to the OPEB trust. Mr. Lamb made motion to accept the resolution and Ms. Reinsmidt made a second. The Board unanimously agreed. Mr. Longfield stated that CSG would keep the fee below \$10,000 due to the existing relationship.

The next Board meeting was scheduled for Thursday, June 21, 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