MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

June 18, 2009

The regular meeting of the City of Chattanooga General Pension Plan was held June 18, 2009 at 8:45 a.m. in the J.B. Collins Conference Room. Trustees present were Daisy Madison, Katie Reinsmidt, Dan Johnson, Terry Lamb, and Carl Levi. Others attending the meeting were Gregory Stump, EFI Actuaries; Pat Cox, Consulting Services Group; Scott Arnwine, Consulting Services Group; Robert Longfield, Consulting Services Group; Valerie Malueg, City Attorney's Office; Sharon Lea, City Personnel Office; Donna Kelley, City Personnel Office; Doug Kelley, City Personnel Office; and Teresa Hicks, First Tennessee Bank.

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

The minutes of the meeting held April 30, 2009 were approved.

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

PART I – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAYABLE THIS PERIOD	YTD	SERVICES RENDERED
CITY OF CHATTANOOGA	$40,000.00	$40,000.00	Reimbursement of administrative costs to the City of Chattanooga for fiscal year 2009
EFI ACTUARIES	$19,040.77	$19,390.77	Professional Services – January 1, 2009 Actuarial Valuation
EFI ACTUARIES	$350.00	$19,390.77	Professional Services – Rutherford calculation
FIRST TENNESSEE BANK	$24,904.98	$103,977.07	Professional Services – Payment for period ending March 31, 2009
NELSON, MCMAHAN & NOBLETT	$527.50	$3,829.00	Professional services for period ending April, 2009

INVESTMENT MANAGERS

DUFF & PHELPS	$7,659.00	$53,473.00	Investment management expense for period ending March 31, 2009
INSIGHT	$9,226.86	$52,099.36	Investment management expense for period ending March 31, 2009
NWQ	$19,588.58	$96,820.03	Investment management expense for period ending March 31, 2009
PATTEN & PATTEN, INC.	$6,973.35	$31,238.75	Investment management expense for period ending March 31, 2009

INVESTMENT MANAGERS (Continued)

COMPANY	AMOUNT PAYABLE THIS PERIOD	YTD	SERVICES RENDERED
SMH	$4,890.82	$22,988.80	Investment management expense for period ending March 31, 2009
WEDGE	$13,521.84	$61,622.81	Investment management expense for period ending March 31, 2009
MANAGER TOTAL	$61,860.45	$318,242.75	

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED THIS PERIOD	YTD	PURPOSE
No Activity			

REPORT OF ACCOUNT (S) PAID

MUTUAL OF OMAHA (Long-Term Disability)	$18,597.06	$114,336.33	Long Term Disability (50%) – April, May 09’

MISCELLANEOUS ITEMS

NAME	TRANSACTION
No Activity	

Administrative Budget FY2010

Ms. Madison presented the administrative budget for fiscal year 2010. The budget was slightly reduced compared to FY2009 due to the recent completion of the experience study and a slight decrease in routine legal fees. All other fees remained consistent. Mr. Johnson made motion to approve the FY2010 administrative budget, and the Board unanimously agreed.

Actuarial Presentation – Gregory Stump

Mr. Stump stated that as a result of the Experience Study, there were updated Valuation Results to report. There would also be a discussion concerning funding policies and a variety of scenario testing in today’s meeting.

In the Experience Study, current assumptions for retirements, terminations, disabilities, and deaths were compared to actual experience to determine new assumptions to update the valuation results. As of 1/1/2009, the new results include a percentage of pay of 14.82%, an accrued liability of $256.0 M, and an unfunded accrued liability of $52.9 M. Mr. Stump explained to the Board that the current policy is an open 30 years level dollar amortization. Assets are currently smoothed over 5 years with an 80-120% corridor. Other options for the amortization method include the number of years (30-yr max), a level dollar or level % of pay, or an open or closed period. Asset smoothing can be more or less than 5 years and the corridor size can be more or less than 80-120%. He stated that there is always a tradeoff between funding progress and control of contribution volatility. He also presented a few test models to the Board using different scenarios comparing random current methods to random new methods.

Report from Counsel

Ms. Malueg referred the board to the City Charter section from last month's board meeting. She stated that the Trustees should take the recommendation of the actuary based on the charter section. This must be appropriated in the annual budget ordinance once approved by the Board. She stated that under certain ERISA Plans, Plan fiduciaries who have failed to fully fund their unfunded liability can be sued.

Given the current economic environment, Ms. Madison asked the actuary to come back with alternative funding proposals using acceptable actuarial assumptions reflective of other plans. Ms. Reinsmidt stated that it was clear what the Board needed to decide based on the actuary's recommendation. Mr. Lamb made motion to approve the recommendation of the actuary and Mr. Levi made a second. Mr. Johnson and Ms. Madison abstained from the vote.

Investment Manager Performance – Pat Cox

Mr. Cox stated that May performance was up 5.1% for the total fund, which brought the YTD performance to 5.6%. Most of the performance increase was noted in the equity market. The total large cap managers (Patten & Patten, NWQ, Wedge, THB, and Thornburg) outperformed the benchmark by 2% for the month. Due to the rebound in the credit markets, the hedge fund portfolio has started to see an upward trend in performance. The real estate portfolio has also been extremely volatile. Under fixed income, SEIX high yield is up 17% and SMH is up 40% for the year. Brandywine is up about 8% for the year.

He stated that the month of June had a nice start, with the last couple of days taking away from that position. There were no real outliers in manager performance.

Negative Press – Consulting Services Group

Mr. Longfield, with CSG, came before the Board to discuss the negative media and separate some of the issues and answer questions. He started with an SEC review process in 2004. They came back to CSG with two issues: their policy and procedures manual needed to be more adequate, and the fact that CSG's code of ethics did not have the employee sign off acknowledging receipt as required by the new law implementation date. CSG brought this to the attention of the regulators, suspended their compliance officer, and was fined $20,000 to the firm, $10,000 to the former compliance officer, and the officer could no longer be in that position. Mr. Longfield stated that as of today, the firm now has two full-time compliance staff and an external compliance advisor.

Earlier this year, the firm settled with the DOL on an issue that was also brought to the regulator's attention by CSG. During a review of client accounts, the firm discovered errors with respect to a small number of ERISA accounts relating to TSG's receipt of commissions and fees from 2002 to 2006. Upon the conclusion of the firm's review, CSG issued refunds and credits of $247,372.78 to ERISA client accounts in the 4th quarter of 2007 and reversed $30,430.00 of fees received by TSG. There was $278,000 in fees coded incorrectly and these credits were given back to the clients when discovered. The fine from the DOL was 10%.

The current issue, the State of NY Common Retirement Fund (CRF), involves an SEC complaint that mentions CSG. The Fund hired CSG to educate them on private equity and hedge funds. Since CSG had no contact with the comptroller (who is the sole decision maker for the CRF) CSG entered into a solicitation agreement with Searle & Co. and its associated employee Hank Morris to meet with the comptroller of the CRF to provide an introduction of CSG and its hedge fund expertise to the comptroller. About 14 months later, after the (SIS) general consultant with the State of NY conducted an onsite due diligence visit with CSG and recommended the CRF retain CSG for a customized fund of funds mandate, the CRF hired CSG to form a customized fund of funds. The SEC complaint mentions that CSG did not disclose the relationship, however, CSG disclosed the solicitor relationship to the CRF and obtained a written acknowledgement from CRF staff as part of the closing of the customized fund of funds as well as providing the same disclosure to internal and external counsel prior to any capital being committed. (CSG has cooperated with the SEC and claims that they had no knowledge of any improprieties.)

Executive Session

Ms. Madison stated that she felt that the Board holds a responsibility to perform a due diligence due to the current economic circumstances. Mr. Johnson stated that the Board really has no choice, since it has been nearly six years since the last review. He stated that there should be an RFP completed for both the Consultant and the Actuarial services. He also questions the actuarial approach used by EFI Actuaries. Ms. Madison asked if the Board should hire someone to do a due diligence on the consultant and who should it be. The Board decided that the diligence should be done by someone that has not been involved with the Plan in the past. Mr. Johnson stated that he appreciated the position that CSG was in due to the negative media and that their explanation was rational. But the Board still has to conduct due diligence.

Ms. Madison brought forth the issue of completing an RFP for actuarial and consulting services. Mr. Johnson made a motion to approve and the Board unanimously agreed.

Mr. Lamb made a recommendation to having Todd Gardenhire recommend another professional to conduct the due diligence for the Board. The Board unanimously agreed.

The next board meeting was scheduled for July 16, 2009 at 8:45 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

____
Chairman

APPROVED:

____
Secretary