

**MEETING OF THE TRUSTEES**

**CITY OF CHATTANOOGA GENERAL PENSION PLAN**

**August 19, 2010**

The regular meeting of the City of Chattanooga General Pension Plan was held August 19, 2010 at 8:45 a.m. in the J.B. Collins Conference Room. Trustees present were Daisy Madison, BettyeLynn Smith, Katie Reinsmidt, and Dan Johnson. Others attending the meeting were Valerie Malueg, City Attorney's Office; Mike McMahan, City Attorney's Office; Robert Longfield, Consulting Services Group; Scott Arnwine, Consulting Services Group; 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 May 20, 2010 were approved.

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

**PART I – ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
CONSULTING SERVICES GROUP	\$17,370.50		Consulting services for the period ending June 30, 2010
EFI ACTUARIES	\$19,516.79 262.50		1/1/2010 Actuarial Valuation Corker Calculation
FIRST TENNESSEE	\$22,728.22		Custodial services for the period ending June 30, 2010

<b>COMPANY TOTAL</b>	<b>\$59,878.01</b>	<b>\$40,361.22</b>
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**INVESTMENT MANAGERS (does not include direct bill thru Custodian)**

ATALANTA SOSNOFF	\$34,732.00	Investment management expense for period Ending June 30, 2010
DUFF & PHELPS	\$11,210.00	Investment management expense for period Ending June 30, 2010
INSIGHT CAPITAL	\$10,139.89	Investment management expense for period Ending June 30, 2010
SMH CAPITAL ADVISORS	\$ 6,888.81	Investment management expense for period Ending June 30, 2010
PATTEN & PATTEN	\$ 8,095.92	Investment management expense for period Ending June 30, 2010
WEDGE CAPITAL	\$16,126.48	Investment management expense for period Ending June 30, 2010

<b>MANAGER TOTAL</b>	<b>\$75,983.10</b>	<b>\$87,193.10</b>
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**ACCOUNTS RECEIVABLE**

COMPANY

No Activity

**REPORT OF ACCOUNT(S) PAID**

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
THE HARTFORD	\$8,295.10		Long-Term Disability (50%) – June 10'
	\$12,082.95		Long-Term Disability (50%) – July 10'
<b>LTD TOTAL</b>	<b>\$ 20,378.05</b>	<b>\$12,082.95</b>	

Mr. Johnson moved to discuss the Report from Counsel ahead of the agenda since a quorum had not been established at the start of the meeting (quorum established upon Ms. Smith's arrival).

Report from Counsel

Mr. McMahan stated that the revised Injured on Duty policy was heard by Council on the third and final reading on August 17, 2010. It provides 75% of salary continuation for six months and 65% of salary continuation for an extended six months for all City employees. An issue has arisen as to whether pension contributions to the Plan should be based on a participant's regular pay received during a payroll period or the new IOD compensation rate for the period a participant is off work due to an IOD. The definition of "earnings" under City Charter Title 3, Chapter III, Article 2, Section 3.37 (11), states: Earnings shall mean the total compensation paid by the city to an employee by a weekly, semimonthly or monthly salary for his personal services that are subject to Federal Income Tax but excluding any payment for personal services made by virtue of any contract. IOD payments are not subject to income tax, which raises this legal concern. The Fire and Police Pension Plan's definition of earnings is the average base salary of the employee. Ms. Madison suggested that both Plans be treated in the same way. Mr. McMahan

proposed that the Board request an actuarial determination from the Plan actuary to determine whether it is cost-neutral to change participants' contributions to the Plan from 2% of their "earnings" (under the Charter's current definition) to 2% of the amount of IOD compensation received during an IOD period. If this change is cost-neutral to the Plan, the City can proceed to amend the definition of "earnings" as the amount participants are actually paid during an IOD period. Mr. McMahan also stated that the Board should get an IRS Private Letter Ruling started concerning the definition of earnings as it relates to an employee's actual wages.

Upon Ms. Smith's arrival, Ms. Madison recommended that the Board obtain an opinion from the Plan actuary to determine whether it would be cost-neutral to change the definition of earnings. Mr. Johnson moved to approve and Ms. Reinsmidt made a second. The Board unanimously agreed.

Ms. Malueg reported that the Consulting Services Contract with Consulting Services Group would be available for approval in the September 16, 2010 board meeting. Mr. Longfield stated that the ADV Form – Part 2 is filed with the SEC and discloses various matters. All managers who utilize commission recapture services are listed in the ADV. She also stated that both of the Investment Policy Statements for the General Pension Plan and OPEB would be available for approval at the next board meeting.

Board Discussion

Mr. Johnson stated that there are currently two trustee vacancies on the pension board. He said if any board members knew of anyone interested, to let him know.

Approval of Minutes & Administrative Issues

The Board discussed approval of the minutes from the meeting held May 20, 2010. Mr. Johnson moved to approve the minutes and Ms. Reinsmidt made a second. The Board unanimously agreed.

Ms. Lea reported the General Pension and OPEB administrative actions for the months of May, June, and July 2010. Ms. Reinsmidt moved for approval and Mr. Johnson made a second. The Board unanimously agreed.

2<sup>nd</sup> Q. 2010 Review – Consulting Services Group – Robert Longfield, Scott Arnwine

Mr. Longfield described the results of the second quarter to the Board. The stock market was down over 11.0%. Healthcare and Financial reform both contributed to down performance. Second quarter GDP of 2.4% was lower than expectations. There is also not expected to be a reduction in unemployment. Bullish outlooks for domestic equities continue due to over-arching macro issues that are continued to keep growth slow. Positive pockets were found in the stock market, including names like Apple, gold stocks, and some utility stocks.

Mr. Arnwine discussed the individual manager performance for the quarter. The total fund was down 5.9% for the quarter, which was better than the composite indices. Treasury and gold did well for the quarter. This caused flight from risk. This penalized cyclical and more economically sensitive companies, causing stocks and bonds within industry sectors to trade more or less in locked step with one another without much regard for companies' specific factors and selling pressure resulted in sharp movements and increased correlation. Of the Plan's eight domestic equity managers, five are at or better than their benchmarks for the quarter. Long term, all eight managers are at or better than their benchmarks. He referred to Insight and discussed the manager's volatility to the Plan.

Mr. Longfield recommended the Board step off of Insight after their next rally. He also stated that THB had acquired 100% of their firm and there were documents for the Board to sign acknowledging the new ownership. Mr. Arnwine next discussed the alternatives. Montague Newhall retired from the firm and has been renamed Greenspring Global Partners.

Mr. Longfield discussed the fixed income portfolio. The current allocation to Brandywine and the outperformance in the fixed income portfolio in the recent quarter has put the maximum allocation just above 20%. He recommended the Board take ½ million from the SEIX High Yield allocation and place it in the cash account for upcoming expenses. Ms. Smith moved for approval and Ms. Reinsmidt made a second. The board unanimously agreed.

Mr. Longfield stated that CSG has been trying to evaluate different asset evaluation opportunities. He said an email was distributed covering Emerging market debts and distressed debts. The Plan has been actively overweight in emerging market equity, emerging market debt, and distressed debt. He stated that these areas are worth further discussion. Brandywine provides a small amount of emerging market debt exposure. They can take up to 15% of their portfolio and go into emerging market debt. This would still be a small amount. He recommended the Plan dedicate an emerging market manager in the portfolio. He also discussed distressed debt and encouraged the board to consider this opportunity. He stated CSG could provide more detailed information at a further meeting and propose a recommendation when the Board is ready. Mr. Johnson stated he would like to know more about all three topics before the Board votes on a recommendation. Ms. Madison asked which topic was most timely and Mr. Longfield stated distressed debt was most important. Emerging market equity and emerging market debt can be discussed at a later date. Ms. Madison stated the Board could discuss distressed debt at the next board meeting.

Mr. Longfield stated the Board is currently in the THB Micro-Cap fund. The principals bought the company back and documents have been distributed for signature. Ms. Reinsmidt moved for approval of the signature of the documents and Mr. Johnson made a second. The Board unanimously agreed.

The next board meeting was scheduled for September 16, 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