

**MEETING OF THE TRUSTEES**  
**CITY OF CHATTANOOGA GENERAL PENSION PLAN**

**August 16, 2012**

The regular meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on August 16, 2012 at 8:30 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 Michael McMahan, City Attorney's Office; Teresa Laney, First Tennessee Bank; Scott Arnwine, Consulting Services Group; Robert Longfield, Consulting Services Group; Madeline Green, Douglas Kelley, and Cheryl Powell, City Personnel Department; and Todd Gardenhire.

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

***Dan Johnson made a motion to approve the minutes of the June 7, 2012 meeting. Terry Lamb seconded the motion. There was no discussion. The minutes of the meeting held on June 7, 2012 were unanimously approved.***

There was short discussion about who should sign minutes unsigned under past chairpersons from March and April 2006. Mike McMahan suggested that Daisy Madison, who was a board member during this time, should be appointed to sign these unsigned minutes in order to complete the recordkeeping. ***Carl Levi made a motion to appoint Daisy Madison to sign the unsigned March and April 2006 minutes. Dan Johnson seconded the motion. There was no discussion. The appointment was unanimously approved.***

Cheryl Powell presented the benefit and plan expenses in the General Pension Plan and OPEB Trust administrative action reports, attached to the end of these minutes.

***Carl Levi made the motion to approve the administrative actions. Dan Johnson seconded the motion. There was no discussion. The administrative actions were unanimously approved by the Board.***

A proposal was made to remove the "ratification of movement of funds to pay benefits" from the Agenda since the Administrative Actions summarizes these transactions. The Administrative Actions transaction summary for the movement of funds to pay benefits would then serve as Daisy Madison's routine report to the board. ***Carl Levi made a motion to remove the Agenda item and allow the Administrative Actions to serve as the report to the board for these transactions. Dan Johnson seconded the motion. There was no further discussion. The board unanimously approved removing the Agenda item.***

**Consulting Services Group Performance Review of 2<sup>nd</sup> Quarter 2012 14**

Robert Longfield informed the group that CSG is selling off all other business lines that are not Institutional Consulting, so that their focus is clarified. In mid-July, all three other business lines were sold subject to regulatory approval and those transactions are progressing. The only remaining business line is Institutional Consulting with 35 employees, \$22B funds, 55 clients.

Terry Lamb asked about the recapturing of fees for sold entities. There is one last Ironwood fee to be recaptured. The recapture of the Ironwood was unique, something that CSG negotiated a selling fee with Ironwood, and the cost was 20 bp on \$15M to be rebated to the clients. There is no avenue to recapture fees on entities being sold, but the pension plan will have savings going forward.

**Second Quarter performance – Robert Longfield**

Losses experienced in 2Q are being made up on 3Q. The Pension Plan performance was down by 2.7%.

There are three areas of concern emerging from 2Q results:

- slowing US economy and GDP decline;
- continued concern with Europe and increased borrowing costs, EU central bank unable to support bailouts (Spain, Italy);
- concern about slowdown in the China economy, China has significant impact on global GDP

Additionally, the fiscal cliff issue had heightened discussion (expiration of tax cuts, increase in budget cuts). These two events are scheduled to occur in January 2013 and they are anticipated to have a recessionary impact (-3%) on the growth of GDP. Growth in the GDP has been sluggish in 2012 and we could be in recession in 2013.

Improvements became evident in 3Q to date:

- There is more serious discussion of fiscal cliff and some action is expected but it is not clear what that will be in light of the election.
- China has been an issue until recently; emerging markets countries can have a more traditional influence on economy by use of interest rates to stimulate the economy, an option not available in the current US environment; China's economy relative to its growth rate has lessened concerns about a slow global economy
- US economy is muddling along a slow growth path, as long as fiscal cliff issue is addressed
- EU Central Bank is still an issue – volatility in Europe will ripple through the economy on a global scale
- Anticipate US economic change on the upside; unemployment rate is better than expectations creating activity in the markets; US energy sector – natural gas prices, increasing manufacturing potential; US labor costs – growing slower than most economies (compared to China whose labor and health care costs in the long term are increasing with slower population growth and an aging population)
- Still positive on emerging markets which are looking attractive and reasonably priced
- There is concern about inflation, especially food inflation and its impact on growth of economies: food in US comprises 13% of the basket of goods for measuring inflation; in emerging market economies, it is over 50% (China, Russia, India); food exports from other countries are slowing due to consumer driven internal demand

There is concern about the ability to achieve the returns necessary to support the actuarial assumptions used in the valuations for pension and OPEB. The structure of the asset allocation in the portfolio for high yield bonds, global bonds, and corporate bonds means that there is little help from Treasuries to achieve the assumption. The anticipated trends need to be examined to determine the strategic allocations that make sense relative to the assumptions.

#### **Investment results – Scott Arnwine**

Scott began by pointing out that the three year 11.7% return for the total fund compares favorably to the actuarial valuation assumption of 7.75%. The five year return does not compare as favorably, however, the ten year return and the overall return are still strong.

The overall portfolio was down 2.7% for the quarter and this fell below the composite expectation to be down 2.2%. The portfolio is still ahead year to date at 5.8% versus an expectation of 5.3%.

It was a volatile quarter, although June was positive. The more conservative sectors outperformed the utilities sector and telecommunications sector, sectors where our managers do not typically participate to a large extent. In the financial sector, REITS, where we had a reallocation, performed well.

Attributes of quality and valuation are used to manage portfolios and seek downside protection. It did not work as well during this quarter. The lowest valuation stocks did not provide protection (compare to internet boom and the 2008 financial crisis where stocks with this attribute lead the outperformance following these events).

Among managers, Patten and Patten, NWQ, and Wedge reversed their double digit positive 1Q results in 2Q. They did not meet their benchmarks for the quarter. However, they are above their benchmarks since inception.

- Any manager overweight in energy investments underperformed in the second quarter
- Large cap also struggled in 2Q with 75-80% of all active managers performing below benchmarks

*Daisy Madison posed a question about allocations and performance for the 5 yr period on the chart on page 2. This is the bulk of our assets (40%) and the margin is fairly wide. This generated more discussion:*

*Is this out of line with how other managers fared during the same time period?*

*The performance results include the recession but also include the managers who transitioned or terminated during 2011.*

*Robert Longfield addressed the question pointing out the chart on page 10 which includes about 100 plans similar to the City, at least similar in actuarial assumption, and may be of similar size. The five year comparative performance to public accounts results is not good. Large cap investment has been the 'Achilles heel' over the 10 year period (see page 11) and performance has been difficult to correct vs. the S&P.*

*Terry Lamb stated that our allocation is 90% of our return and on a 10 year basis, the 6.0% return is good; our allocation choices are good and prudent. Corrections or actions have been made along the way yet allocation choices drive the return. Managers may need to be evaluated.*

*Dan Johnson asked if it is a change in mix or a change in managers that should be our focus for improvement. Robert Longfield said there are three large cap managers and the shares of a recently terminated manager (9 mos ago) were put in index funds. We should be hesitant to make change based on short term results. None of the managers use the S&P as their benchmark. Even when the large cap managers are outperforming, the S&P is still hard to beat. Two of our managers are growth oriented, two are value oriented so rolled together the investment provides a total market mix.*

*Terry Lamb said that with the manager changes made, we have already made investments in index funds. We have allocated \$23M of the equities in the iShares Russell growth index and it has outperformed the S&P, a decision made when the manager (Atlanta Solonoff) was terminated 9 mos ago. With this change, we should allow some time before we draw conclusions from the overall result.*

The small cap investors performed well vs. the Russell 2000 index including the two newly added managers who are not fully invested in 2Q. Their returns to date are shown in the overall returns column.

Thornburg's international performance beat the benchmark in a tough marketplace. Advancers included Carnival Cruise lines, Novo Nordisk and British American Tobacco. Detractors included SAP (technology) and Walmart Mexico (stock took a hit due to potential bribery accusations).

Among alternative investment managers:

- Hedge fund – Pointer results, down 1.7% for 2Q, did not hold up for the quarter relative to their benchmark; Ironwood fund of funds was down 0.1% for 2Q
- Real Estate – Duff and Phelps was up 3.5% in 2Q versus a 3.7% benchmark and continues to perform well;
- Fixed income private equity: overall performance 2.0% versus benchmark of 2.1%; Brandywine Global, up 2.1% versus benchmark of 0.9%, outperformance came from duration and yield curve exposures in active positions across a number of sovereign debt markets, primarily developing countries and their US corporate bond allocation gains driven primarily by currency. Prudential, exclusively US corporate bonds, was even with their benchmark for 2Q.
- Fixed income for high yield returns: SMH, invested in lower quality instruments, performed below the benchmark due to price depreciation of some individual positions; RidgeWorth, invested in higher quality instruments, performed below the benchmark due to overweight in telecommunications outside the US and underperformers in transportation sector.

Private equity alternative investment (closed end funds) results are shown on page 5 on a time and dollar weighted rate of return. Greenspring and DTS have performed well on a dollar weighted basis, FCA and Delta Venture have had disappointing results.

Robert Longfield suggested a review of high yield manager performance and the high yield allocation for the next quarterly meeting. He recommends that we keep some high yield allocation because there are some opportunities. Perhaps there is potential for investment in emerging market debt; perhaps there is room for bond appreciation. By the next meeting they could provide some education and a strategic direction for the board's consideration.

*Terry Lamb asked about our interest rate risk in a rising rate environment.*

*Robert Longfield explained the current risk environment relative to our portfolio allocations and options that we may consider, such as floating rate loans. We do have interest rate risk. He said that*

*corporate bond spread to Treasuries is wide and mitigates some of the risk but diversification (use of global bonds) is needed to protect against actions of Asia and Europe.*  
*Terry Lamb then asked can the impact be modeled? Perhaps we start looking now at changing the mix. Do we have more risk going forward than return? Should we be more conservative? We are low in real estate but those markets continue to improve so should we have a higher weighting in real estate?*

*Robert Longfield that real estate holdings may actually increase through the reclassification of property (value added), and perhaps we consider global REITs as well as domestic.*

*Terry Lamb requested that the next review at the November meeting include more info about REITS and fixed income opportunities.*

*Katie Reinsmidt said that there is still room for outperformance on REITs, maybe not so much on the flipping of B grades to A's (value added), and it depends on the speed of the recovery. It may be a steady performer and should not be overweight in the portfolio.*

CSG will come prepared to discuss the analysis requested above and emerging market debt from an educational standpoint at the next meeting.

July pension fund performance - fund was up 1.1% for 2Q and 6.9% YTD. Actuarial assumption is 7.75%.  
June/July OPEB reports – fund not fully invested with about 20% of OPEB in cash. How do we approach investing the cash? How much cash needs to be kept on hand?

Outflows do hit this account so some cash must be kept on hand. Teresa Laney will provide some data for average outflow per month.

*Terry asked about indices for the pension fund and how the composite index is determined. There was some discussion about the history of this benchmark and it may be outdated relative to portfolio structure.*

***Carl Levi made a motion to accept the quarterly report; Terry Lamb seconded. There was no discussion. The motion to accept was approved unanimously***

#### **RFP Follow-up – Selection of Actuary**

This action item was deferred. Since outstanding questions had not been answered, there was no recommendation ready at the time of the meeting.

#### **Report from Counsel**

Mike McMahan recommended joining a national organization for public pensions to be an informed body and have access to educational programs or sessions relating to public pension funds. There is a cost for joining, there may be one or two meeting opportunities per year, and there is opportunity to acquire educational material. It will provide a conduit for new ideas and assist with keeping up with topics in the news. Robert Longfield said that there can be good conferences available that lower the cost for trustees or for those who are speakers, presenters, or moderators at the conference.

The General Pension Plan benefit structure can be modified or amended upon recommendation from the board and actuary to make a change. The Council can then act on it.

***Carl Levi made a motion to approve joining organization to have access to conferences and educational material. Dan Johnson seconded the motion. It was clarified that this is not just for attorneys but for all trustees or administrators. The motion was approved unanimously.***

#### **Schedule -- Election of Officers**

***Dan Johnson made a motion to maintain the slate of officers for another term (Chair – Daisy Madison, Vice-Chair – Katie Reinsmidt, Secretary – Carl Levi). Carl Levi seconded the motion. There was no discussion. The motion was approved unanimously.***

The meeting was adjourned.

**ATTACHED REPORTS**

**GENERAL PENSION PLAN  
ADMINISTRATIVE ACTIONS**

**PART I – PARTICIPANT SUMMARY**

**SUMMARY OF PENSION APPLICATIONS**

<u>NAME</u>	<u>DEPARTMENT</u>	<u>TYPE/OPTION</u>	<u>MONTHLY AMOUNT</u>	<u>EFFECTIVE DATE</u>	<u>NOTES</u>
Crockett, David	General Government	Normal - Option D	\$962.42	7/1/2012	
Finley, Eric	Airport Authority	Normal - Option A	\$437.50	9/1/2012	
Floyd, Susan	Human Services	Normal - No Option Elected	\$1,029.14	8/1/2012	
Harwood, Clayton	Public Works	Normal - Option A	\$706.59	7/1/2012	
Hawthorne, Carolyn	Human Services	Normal - No Option Elected	\$1,075.12	9/1/2012	
Johnson, Connie	Human Services	Normal - Option E	\$1,068.03	7/1/2012	
Long, Dardenelle	Parks and Recreation	Rule of 80 - Option A	\$2,075.29	8/1/2012	
Magruder, Emma	Police Services Center	Normal - No Option Elected	\$621.80	8/1/2012	
Nolan, Carl D	Parks and Recreation	Rule of 80 - No Option Electec	\$1,034.21	9/1/2012	
Saxton, Cheryl	Human Services	Immediate Early - No Option I	\$485.38	7/1/2012	
Woods, Harry	Public Works	Normal - Option B	\$1,438.46	7/1/2012	

**BENEFIT REVISIONS/CONVERSIONS-PENDING BOARD REVIEW/APPROVAL**

<u>NAME</u>	<u>TYPE/OPTION</u>	<u>PREVIOUS AMOUNT APPROVED BY BOARD</u>	<u>REVISED AMOUNT</u>	<u>EFFECTIVE DATE</u>
no activity				

**SELECTION OF OPTIONAL BENEFIT REPORT – VESTED OR AGE 62 AND OLDER  
PARTICIPANTS**

<u>NAME</u>	<u>OPTION</u>	<u>DATE</u>
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**DISABILITY BENEFIT REPORT**

<u>NAME</u>	<u>TYPE</u>	<u>MONTHLY DISABILITY BENEFIT AMOUNT</u>	<u>EFFECTIVE DATE</u>
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**LUMP SUM DISTRIBUTIONS (FOR RATIFICATION-CHECKS PROCESSED)**

**Return of Contributions**

<u>NAME</u>	<u>DEPARTMENT</u>	<u>EMPLOYEE NUMBER</u>	<u>TERMINATION DATE</u>	<u>REFUND AMOUNT</u>	<u>Notes</u>
Brown, Timothy A.	Public Works	66840	7/19/2012	\$870.15	
Fugh, Shakeila	Human Services	65076	5/31/2012	\$183.55	
Griggs, Shelah F.	Human Services	67852	6/1/2012	\$391.06	
Hawkins, Patrice R.	Parks and Recreation	62550	7/2/2012	\$2,361.60	
Justis, Daniel	Information Services	67243	7/20/2012	\$1,320.66	
Korous, Geoffrey	Public Works	67095	5/18/2012	\$571.31	
Morrison, Grady	Public Works	68382	5/7/2012	\$147.80	
Munn, Terry	Library	65765	4/17/2012	\$1,421.82	

<b>TOTAL</b>	<b>\$6,397.80</b>
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**Return of deceased retiree basis**

<u>NAME</u>	<u>RETIREE NAME</u>	<u>DATE OF DEATH</u>	<u>REFUND AMOUNT</u>	<u>Notes</u>
Mingle, Dorothy	Clarence Mingle	9/20/2010	\$553.38	
Williamson, Barbara	Robert Williamson	7/12/2012	\$128.36	

<b>TOTAL</b>	<b>\$681.74</b>
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**PART II – ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE  
AMOUNT PAID**

<u>COMPANY</u>	<u>THIS PERIOD</u>	<u>FYTD</u>	<u>PURPOSE</u>
<b>Prior quarter total</b>		<b>\$241,859.69</b>	
CONSULTING SERVICES GROU	\$17,823.25		Consulting services for Apr 1 - June 30, 2012 General Pension plan expense for period ending 6/30/2012
FIRST TENNESSEE	\$24,730.36		
<b>COMPANY TOTAL</b>	<b>\$42,553.61</b>	<b>\$284,413.30</b>	

**INVESTMENT MANAGERS**

**AMOUNT PAID**

<u>COMPANY</u>	<u>THIS PERIOD</u>	<u>FY12TD</u>	<u>PURPOSE</u>
<b>Prior quarter total</b>		<b>\$248,004.58</b>	
DUFF & PHELPS	\$13,906.00	\$49,851.00	Investment management fees for quarter ending 6/30/2012
INSIGHT	\$15,512.73	\$73,821.35	Investment management fees for quarter ending 6/30/2012
NWQ INVESTMENT		\$50,426.83	
PATTEN & PATTEN, INC.	\$9,490.39	\$27,085.07	Investment management fees for quarter ending 6/30/2012
SMH CAPITAL ADVISORS	\$8,397.47	\$31,968.31	Investment management fees for quarter ending 6/30/2012
WEDGE CAPITAL	\$21,941.52	\$84,100.17	Investment management fees for quarter ending 6/30/2012
KENNEDY CAPITAL MGM	\$5,487.00	\$5,487.00	Investment management fees for quarter ending 6/30/2012
<b>MANAGER TOTAL</b>	<b>\$74,735.11</b>	<b>\$322,739.69</b>	

**ACCOUNTS PAYABLE – INVESTMENT MANAGERS (REVISION)**

No Activity

**ACCOUNTS RECEIVABLE**

<u>COMPANY</u>	<u>AMOUNT RECEIVED</u>	<u>EFF DATE</u>	<u>PURPOSE</u>
Diversified Partners III, L.P.			
<b>COMPANY TOTAL</b>	<b>\$0.00</b>		

**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

<u>COMPANY</u>	<u>AMOUNT</u>	<u>FYTD</u>	<u>EFF DATE</u>	<u>PURPOSE</u>
<b>Prior quarter total</b>		<b>\$3,950,000.00</b>		FY2012 total
Northern Trust Investments	\$250,000.00		7/19/2012	withdrawal to cover July benefit payments and miscellaneous expenses
Northern Trust Investments	\$0.00			
Northern Trust Investments	\$0.00			
<b>MISCELLANEOUS TOTAL</b>	<b>\$250,000.00</b>	<b>\$250,000.00</b>		FY2013 to date

**REPORT OF ACCOUNT(S) PAID**

AMOUNT PAID

<u>COMPANY</u>	<u>THIS PERIOD</u>	<u>FYTD</u>	<u>PURPOSE</u>
<b>Prior quarter total</b>		<b>97,201.72</b>	
THE HARTFORD	\$8,889.83		Long term disability (50%) - June 2012
		<b>\$106,091.55</b>	<b>FY2012 to date</b>
THE HARTFORD	\$8,910.30		Long term disability (50%) - July 2012
<b>LTD TOTAL</b>	<b>\$8,910.30</b>	<b>\$8,910.30</b>	<b>FY2013 to date</b>
<b>LTD TOTAL</b>	<b>\$17,800.13</b>	<b>\$17,800.13</b>	<b>Quarter</b>



**CITY OF CHATTANOOGA OPEB TRUST  
ADMINISTRATIVE ACTIONS**

**PART I – ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
<b>Prior quarter total</b>		<b>\$8,090.52</b>	
FIRST TENNESSEE	\$1,680.15		Custodial services for quarter ending 6/30/2012

<b>COMPANY TOTAL</b>	\$1,680.15	<b>\$9,770.67</b>
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**INVESTMENT MANAGERS**

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
<b>Prior quarter total</b>		<b>\$0.00</b>	

<b>MANAGER TOTAL</b>	\$0.00	<b>\$0.00</b>
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**ACCOUNTS RECEIVABLE**

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
<b>Prior quarter total</b>		<b>\$0.00</b>	

<b>COMPANY TOTAL</b>	\$0.00	<b>\$0.00</b>
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Chairman

APPROVED:

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Secretary