MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

September 21, 2006

The regular meeting of the City of Chattanooga General Pension Plan was held September 21, 2006 at 8:45 a.m. at the J.B. Collins Conference Room. Trustees present were David Eichenthal, Daisy Madison, and Dan Johnson. Others attending the meeting were Donna Kelley, City Personnel Office; Doug Kelley, City Personnel Office; Sharon Lea, City Personnel Office; Michael McMahan, Nelson, McMahan & Noblett; Pat Cox, Consulting Services Group; Scott Arnwine, Consulting Services Group; Yoon Lee, Consulting Services Group; and Teresa Hicks of First Tennessee.

The meeting was called to order by Chairman David Eichenthal. A quorum was not present.

The minutes of the meeting held May 18, June 15, and July 20, 2006 were postponed for review and approval to the next meeting on October 19, 2006.

The following pension benefits and plan expenses were discussed for ratification on the next meeting:

ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAYABLE	SERVICES RENDERED
CSG	$16,514.50	Professional services for quarter ending June 30, 2006
FIRST TENNESSEE	$26,123.58	Custody and benefit payment services for quarter ending June 30, 2006
INVESTMENT MANAGERS		
ARK ASSET MANAGEMENT	$25,814.00	Investment management fee for quarter ending June 30, 2006
DUFF & PHELPS	$21,121.00	Investment management fee for quarter ending June 30, 2006
INSIGHT	$17,197.22	Investment management fee for quarter ending June 30, 2006
NWQ INVESTMENT	$28,333.13	Investment management fee for quarter ending March 31, 2006
	$28,734.92	Investment management fee for quarter ending June 30, 2006
	$121,200.27	TOTAL

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	PURPOSE
FIRST CHICAGO/BANK ONE	$4,969.62	First Chicago Shareholder Securities Litigation-settlement (account managed by Flippin, Bruce & Porter).
SIGNATURE BANK	$369.44	In re Dollar General Corporation Securities Litigation-share of Net Settlement Fund

REPORT OF ACCOUNT (S) PAID

HARTFORD LIFE AND	$12,535.29	Premium August 2006
ACCIDENT INSURANCE CO.	$12,520.41	Premium September 2006
(Long-Term Disability)		

MISCELLANEOUS ITEMS

NAME	TRANSACTION
No activity	

Quarterly Performance

Mr. Cox and Mr. Arnwine, from CSG, introduced Ms. Lee, who is part of the firm's service team dedicated to the City of Chattanooga account. Ms. Lee is a performance measurement specialist at the firm and along with CSG's performance group, redesigned the quarterly performance evaluation presentation booklet. Mr. Cox presented the second quarter performance to the board and handed out the August summary. Through the second quarter, the broad diversification of the portfolio has contributed strong performance over the trailing 3 years returning 12.4% and outperforming the composite indexes over the same period. Over the past five years the plan has returned 5.4% also outperforming the composite index. The large and small cap domestic equities have outperformed their index with consistent returns. Mr. Cox explained how the fixed income portfolio has improved over the past three years due to allocation within different fixed income markets and manager performance. For the second quarter, the total fund outperformed the total composite fund index, which was down 1.4%, by 50 basis points. The managers in aggregate have outperformed a static index mix by about 3.0% over the trailing three years. The international equity manager, Thornburg, also outperformed its benchmark by about 1% in the trailing one year. The Hedge fund portfolio was down modestly for the quarter, but outperformed the benchmark. Year to date, the hedge fund portfolio was up 3.8% performing slightly better than large cap stocks and outperforming bonds which are negative year to date through June. Overall, all the managers are doing well over longer time periods. Pointer had some international exposure that struggled during the quarter, however, the recent recovery of the international markets during the third quarter has also proven beneficial in Pointer's portfolio. In fixed income, both high yield managers have provided positive year to date performance while the broader core fixed income market represented by the Lehman Aggregate Bond Index is slightly negative for the first six months of the year.

August Performance & Manager Review

The performance thru August was positive after a difficult second quarter. The Plan was up by about 1.7% and year to date about 6.5% placing the Plan within 1.25% of the actuarial return through the first eight months of the year. For the third quarter year to date, the previously strong energy sectors have shown some weaknesses while technology sectors have shown recent strength. Within the large cap growth portfolio, Patten and Patten had done well year to date given their overweight to energy while Ark had trailed the first six months of the year largely due to their technology overweight. However, the recent reversal in market leadership has led to Ark outperforming Patten and Patten. This demonstrates the complimentary styles of the two large cap growth managers.

There is solid performance across the board for fixed income in the third quarter. Asset allocation within fixed income has really provided solid performance over the trailing three years and diversification continues to contribute overall to the portfolio. Because of the decline in bond yields, bond prices have gone up resulting in a positive bond market during the first two months of the second quarter. Mr. Eichenthal made the comment that if you compare the fixed income performance over the trailing three years versus the trailing five years, the addition of global fixed income and high yield has been positive changes.

Discussion of changes in Brandywine Investment

Earlier in the year, Brandywine (global bonds) indicated that they were going to open an institutional mutual fund and would be closing down the current commingled product used by the Plan and would like the Plan to move to the new mutual fund. This change would have resulted in the Plan moving to a mutual fund that imposed slightly higher fees than what the Plan was currently paying. CSG worked with Brandywine to consider opening a new commingled product that would not impose increased fees to the Plan. Brandywine agreed with CSG’s assessment and will provide a new commingled vehicle that will provide the same investment strategy with the same fee structure currently in place for the Plan.

Recommendation on fixed income allocation

The combined fixed income and cash allocation had fallen below the 25% policy minimum due to benefit payments and the final capital call to FCA III, bringing the allocation to 24.2%. Mr. Cox recommended that we reallocate back to our minimum of 25%. CSG feels that since the Plan is making regular benefit payments it will be more efficient for the re-allocated capital to be placed in the money market, which yields about 4.5% at First Tennessee. CSG recommended taking $1,500,000 off the table from the REIT allocation (Duff & Phelps) that is up over 32% for the last twelve months and $1,000,000 from our small cap manager (THB). Since the Board did not hold quorum, there was not a vote. The matter is subject to ratification at the next Board meeting.

CSG gave the Board an update on Ironwood and their allocation to Amaranth, one of 27 underlying managers in Ironwood’s portfolio. Mr. Cox mentioned that the use of a fund of funds approach to investing in hedge funds provides manager and strategy diversification. While the performance of Amaranth is disappointing, they are one of 27 managers. Given that Ironwood represents a 5% position in the Plan the one-month decline in Ironwood’s performance would likely cause a 10 basis point impact for the month of September. CSG confirmed to the Board that this situation did not pose a threat of liquidity.

Presentation by SEIX and SMH (High Yield Managers)

Mr. Cooke, an analyst and portfolio manager with SMH Capital Advisors, Inc. gave the first presentation. He explained how the firm has had a long, successful history whose parent company is SMH Group based in Houston, Texas. Their client base is diversified among institutional and high net worth client and they currently manage $1.6 billion in total assets with $1 billion in high yield. SMH plans to close their strategy to new investments once assets under management reach $2 billion, making a conscious decision to remain nimble within the high yield market. SMH feels that with their portfolio concentration closing the product will allow them to continue to consistently deliver performance above the index and their peers. SMH invests in a concentrated portfolio of 25-30 bonds and uses fundamental, bottoms-up credit analysis when choosing bonds that demonstrate significant value. The investment process focuses on three main disciplines. The first step is Credit Risk Reduction. This is the liquidation analysis. They look at the company’s liquidated assets and determine whether they are enough to pay off its liabilities. If not, they don’t look at the company any further. This eliminates 50-70% of the market. In the second step, relative value, SMH conducts a credit analysis on the companies chosen and looks at what the bonds are yielding and relates them to other opportunities. Finally they run a lower concentrated portfolio which is different than most managers in the asset class. Mr. Cooke gave a brief synopsis of the settled trades as of September 15, 2006.

Mr. Zona, Managing director of SEIX Advisors, gave the second presentation. He explained how the firm was just purchased by SunTrust Bank and how that has worked out very well. He briefly described the staff of the investment group and their specialties. SEIX is a high quality, high yield bond purchaser and purchases only BB and B bonds. They have an investment policy to capture the upside potential of high yield bonds and limit the downside. As part of their investment process, SEIX looks for companies that are de-leveraging, taking cash from operations to pay down company debt. Through their investment process, SEIX looks for capable management teams, the company's access to capital, asset protection, and a strong competitive position. SEIX's investment philosophy is based off their belief that over time, BB and B rated bonds will provide superior risk-adjusted performance relative to CCC bonds. The bulk of the firm's recent underperformance has come from the decision not to hold Ford or GM bonds and being absent the CCC market has outperformed the higher quality portion of the high yield market.

Discussion

The Board discussed the differences between the two high yield investment managers and the risks associated with the returns. CSG thinks that both SMH and SEIX are great managers, they just do things differently. Ms. Madison was concerned about the managers reaching their benchmarks. Mr. Cox stated that SEIX had underperformed because they had two corporate names that they had to get rid of. CSG had prepared a chart that compared the risks and returns of the five year market for SMH and SEIX. If we do have a difficult time with SMH, Mr. Cox expects SEIX to lift up the other side and carry their weight.

The next board meeting is scheduled for Thursday, October 19, 2006 at 8:45 a.m.

There being no further business, the meeting was adjourned.

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Chairman

APPROVED:

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Secretary