

MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

May 23, 2019

This regularly scheduled meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on May 23, 2019 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Aon Miller, Mayor Berke and Jeffrey Wilson. Others in attendance at the meeting were Scott Arnwine, Gavion, LLC; Jed Cooper, First Tennessee Bank; Ed Koebel and Jennifer Johnson, Cavanaugh Macdonald Consulting, LLC; Valerie Malueg, Office of the City Attorney; Madeline Green and Cheryl Powell, City Human Resources Department.

Definitions in the document: GPP is General Pension Plan, OPEB is Other Post-Employment Benefits

The meeting was called to order by Chair Daisy Madison.
A quorum was present for the meeting.

Approval of Minutes

Jeffrey Wilson made a motion to approve the minutes from the February 21, 2019 meeting. Mayor Berke seconded the motion. The minutes were approved.

Administrative Actions

Cheryl Powell presented the Administrative Actions for the current period. There were no retirement or termination transactions out of the ordinary. The GPP did receive distributions from Delta Venture Partners and DTC Diversified partners totaling \$69,858.32. Liquidations for board to ratify:

- a capital call for the GoldenTree Distressed Fund of \$375,000 for GPP
- two capital calls for the iNetworks fund totaling \$84,733.14 for OPEB
- three requests for liquidations to pay benefits totaling \$1.4 million from Russell 1000 Growth fund

Mayor Berke made a motion to approve administrative actions. Jeffrey Wilson seconded the motion. The administrative actions were approved as presented.

Cheryl Powell presented the budget for Fiscal Year 2020. This budget includes the cost of the OPEB valuation that is conducted every two years. GPP costs for the LTD premium are lower for the next year due to lower rates in the LTD program. The item for reimbursement for services to the City of Chattanooga has been modified. Cheryl worked with the City Finance department to model the costs to justify the amount to be reimbursed and to provide a method to estimate the budgeted costs year over year.

Aon Miller made a motion to approve the proposed FY20 budget. Mayor Berke seconded the motion. The FY20 budget was approved.

Actuarial Valuation Results – Ed Koebel and Jennifer Johnson, Cavanaugh Macdonald

Ed Koebel provided a presentation of the results of the valuation of the General Pension Plan. This valuation applied the changes to the actuarial assumptions approved by the board following the presentation of the experience analysis presented in February's meeting. The valuation results are based on the new (lower) discount rate of 6.75%.

Jennifer Johnson presented the key results of the valuation.

- Demographically, there are more active employees this year than last with a higher annual compensation. Even though the number of retirees increased, there are still more active employees

- than retirees receiving benefits with a ratio of 1.18. This ratio has an impact on cash flow and is trending downward. Currently, more than half of the total Plan liabilities are for retirees.
- The investment experience for the year 2018 was a -1.98% return on market value as the fund value began at \$292M and ended at \$278M for the year. However, there was a 6.76% return on the smoothed actuarial assets compared to the assumed 7.00% for the prior year. This determination reflects the use of five year smoothing.
 - The Unfunded Actuarial Accrued Liability of \$82.2 million reflects a \$6.1 million increase over the prior year with almost all of the increase due to changes in assumptions applied to this valuation. The Funded Ratio decreased from 78.8% to 78.1%. The Actuarially Determined Employer Contribution increased from 20.50% of payroll to 21.42% of payroll. The estimated contribution is \$13.5 million.

The reduction in funded status is in part due to the accelerated smoothing. The assumption was changed from ten year smoothing to five year smoothing. While it does look disturbing, it is a better result than most other public plans. The lower discount rate puts the Plan in a better position for future investment gains.

Daisy Madison mentioned that the funding policy for the State of Tennessee put into place restrictions on discount rates. Ed indicated that the Plan's discount rate and funded ratio may stay relatively flat for a few years. The City has continued to fully fund the Plan year over year and will continue to do so.

Ed provided some background on a new Actuarial Standard of Practice concerning risk assessment (sensitivity testing) for some risks. This type of analysis can establish the importance of an assumption's impact on the valuation results.

1. He included a slide that addresses investment risk through an *Asset Volatility Ratio* which is defined as the market value of assets divided by covered payroll. The value for the City for 2019 is 4.4. From the table in the presentation, if market returns are less than expected (say 10% below), the employer contribution rate would have to increase (approximately 3.8%) in order to maintain the funding target.
2. The second slide shows a sensitivity analysis on the discount rate by assuming it is higher or lower by 1% and the impact on the contribution rate and the funded level of the Plan.
3. Other risks that may be considered include longevity risk (the risk of retirees living longer than assumed) and an active population risk (the potential for the active population to decline or closing the plan to new entrants). Longevity risk was addressed with the mortality table change and the active population risk is not a big risk at this time for City of Chattanooga.

The last part of the presentation looked at projections of contribution rates for the next few years. In these projections with the 6.75% discount rate, the contribution rate will continue to rise for the next few years to approximately 23% before it begins to slowly decline.

In the follow-up discussion about results, the comments were made that the City is not anticipating a lot of growth in the number of employees in the civilian population that is covered by the GPP; however, there is anticipated growth in the retiree population. At the same time the tax base for the City has been growing.

Jeffrey Wilson made a motion to accept the contribution rate of 21.42% based on the 6.75% discount rate for the GPP. Aon Miller seconded the motion. The motion carried.

Investment Performance Review 1Q 2019 – Gavion

Scott Arnwine provided the overview for the quarter. The losses experienced in 4Q 2018 were recouped in the first quarter of 2019. The GPP ended the year 2018 at \$278 million and ended the first quarter at \$297 million. The GPP results were up 7.9% for the quarter before reflecting the results from the private partnerships. The trade wars and trade agreements continue to be a concern into 1Q. The market continues to respond to the 'tweets' but not as rapidly. Earnings growth is still healthy but growth rates have slowed. The results in 1Q showed a strong quarter for equities. Most equity managers outperformed benchmarks with results in double digits. Value stocks in general have underperformed yet value managers continue to seek opportunities. One thing to note is that since 2008 has rolled off beginning this year, the 10 year annualized return for the GPP total fund is 9.9%. (The value was 8.5% in the 12/31/2018 report).

Scott discussed the presence of private equity in the portfolio, and in particular distressed debt. Instead of fixed income, the Plan chose to invest in GoldenTree, one of the private debt partners, a less liquid and less volatile asset class, which had a 1Q IRR of 13.23%.

There was discussion about passive vs active investment, in particular S&P ETF vs active management. No doubt the S&P has been hard to beat in the recent past. However, active management does provide downside protection that is not available in the passive ETF in the event of a downturn.

For hedge funds, Pointer results are well above the benchmark while Ironwood, which is more diverse and conservative, had positive results but below the benchmark. For Real Estate, results were good but mixed relative to the benchmark. TerraCap has not yet reported their results.

For Fixed Income, the overall result of 3.6% is greater than the Global Aggregate and the US Aggregate benchmarks in a challenging market. The recommendation is to use the Prudential US Corporate Bond fund as the source for liquidations to pay benefits. Prudential invests largely in BBB bonds and there is the risk of downgrades to ratings. The Voya Floating Rate Fund would be a second source, since interest rates are anticipated to stay relatively flat.

The OPEB results were up 8.5% for the quarter. The OPEB fund is more heavily invested in equities but about 11% of the fund is in cash. The fixed income percentage invested is less than the minimum objective. Some reallocation of cash is needed to meet objectives. The initial recommendation is to allocate a third of the cash into core managers as follows: add \$2 million to the Johnson Institutional Core Bond fund to improve the fixed income percentage and add \$1 million to the iShares Russell 1000 Growth Index fund.

Jeffrey Wilson made a motion to allocate \$2 million of the OPEB cash to the Johnson Institutional Core Bond fund and \$1 million to the iShares Russell 1000 Growth Index fund. Aon Miller seconded the motion. The motion carried.

Report from Counsel

Valerie provided a follow-up to the November meeting discussion about the Ethics pledge and the Disclosure of Conflict of Interest statement. The original requirement was for all board members to sign the statements in 2014 and for new board members after February 4, 2014 to sign the Ethics Pledge. All forms, handbooks and guides pertaining to ethics are on the City Attorney webpage.

The board expressed an interest in having the Ethics and conflict of interest as an agenda item on an annual basis for review of any updates. Currently there are no changes to the requirements.

The question was raised as to whether the Ethics pledge needs to be signed each year. After some discussion, it appears to be more important that a conflict of interest be disclosed and that board member recuse himself or herself if necessary. If the board wants to do this on an annual basis, that can be done as well.

Jeffrey Wilson made the motion that GPP board members annually sign the conflict of interest statement. Aon Miller seconded. The motion carried.

There being no other business the meeting was adjourned by Daisy Madison.

**CITY OF CHATTANOOGA GENERAL PENSION PLAN
ADMINISTRATIVE ACTIONS**

**Meeting of Trustees
May 23, 2019**

PART I - PARTICIPANT SUMMARY

SUMMARY OF PENSION PLAN APPLICATIONS

Name	Department	Type	Option	Monthly Amount	Effective Date	DROP	Notes
Brown, Rozanne L	RPA	normal	no	\$1,573.59	3/1/2019	\$20,487.37	
Moore, Albert	Public Works	normal	C	\$1,143.87	3/1/2019	\$42,062.22	
Hague, Linda	Public Works	normal	no	\$707.59	1/1/2019		
Garner, Bruce	Fire services	normal	B	\$1,915.24	5/1/2019		
Lewis, Donald	Public Works	Rule of 80	A	\$2,117.41	5/1/2019		
Davis, A. Michael	Public Works	Rule of 80	A	\$1,041.98	5/1/2019		
Orr, John	Public Works	normal	B	\$860.60	5/1/2019		
Talley, Terry	Public Works	Rule of 80	C	\$1,630.60	5/1/2019	\$66,970.34	

Count	8	\$10,990.88	\$129,519.93
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DEATH BENEFITS - DECEASED ACTIVE OR VESTED EMPLOYEES

Name	Employee	Date of death	Type	Monthly Amount	Effective Date	Notes
Hakeem, Mohammed	Hakeem, Jennifer	2/24/2019	A	\$304.34	3/1/2019	

BENEFIT REVISIONS/CONVERSIONS - PENDING BOARD REVIEW/APPROVAL

NAME	TYPE	Option	Previous amount approved	Revised amount	Effective date
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SELECTION OF OPTIONAL BENEFIT REPORT - VESTED OR ATTAINED AGE 62 OR GREATER

NAME	OPTION	Effective Date
Stanley Fravel	A	2/17/2019
Monica Watson	A	1/14/2019
Vincent White	A	1/14/2019

DISABILITY BENEFIT REPORT

NAME	TYPE	Employee Number	Insurance Benefit Amount	Effective Date	Notes
Alex Freeman	not job related	63019		11/9/2019	

LUMP SUM DISTRIBUTIONS (FOR RATIFICATION - CHECKS PROCESSED)

Return of contributions		Employee Number	Refund Amount	Termination Date	Notes
			\$47,476.77	25	
NAME	Department	Employee Number	Refund Amount	Termination Date	Notes
Bowers, Donna	Police family justice	79201	\$974.97	11/21/2018	
Brann, Stephen	Library	79315	\$856.62	11/28/2018	
Brown, Fredrick L	Public Works	80635	\$718.54	12/18/2018	
Carter, Freida	ECD	75697	\$1,969.46	2/22/2019	
Hagan, Justin	Public Works	74232	\$2,686.50	1/17/2019	
Harwood, Thomas	Public Works	79997	\$1,306.59	11/29/2018	
Hickey-Ezell, Lori	Public Works	63021	\$4,913.80	2/25/2019	vested
Ingraham, Jordan	Public Works	81268	\$284.60	11/23/2018	
Johnson, Kristy	IT	81187	1060.77	12/21/2018	
Jones, Norma	Police services	77337	\$188.95	11/8/2018	
Lay, Paula	Public Works	82094	\$263.19	3/22/2019	
Madden, Gerald	Public Works	31562	\$6,502.95	2/8/2019	vested
McCullough, Thomas	Public Works	77031	\$1,306.37	11/30/2018	
McLaughlin Brewer, Sarah A	Library	71747	\$2,029.27	3/29/2019	
McMahan, Charles E Jr	Public Works	76602	\$1,851.31	3/22/2019	
Menifee, Latisha	Public Works	81955	\$175.20	11/7/2018	
Miller, Timothy	Public Works	62375	\$6,703.32	1/15/2019	vested
Mundy, William S	Public Works	71485	\$4,017.45	2/14/2019	
Norrell, Heath Shane	Public Works	82476	\$139.54	12/17/2018	
Smith, Mitchel	Airport	na	\$1,228.22	1/7/2019	
Taylor, Victor D	Public Works	78505	\$1,108.20	1/24/2019	
Vicars, Dannielle	Airport	na	\$2,345.27	1/25/2019	
Watson, Monica	Library	72495	\$2,976.07	4/12/2019	
Woodruff, Amber	Human services	82375	\$151.98	1/17/2019	
Young, Chaz	Public Works	77366	\$1,717.63	2/1/2019	

Return of deceased retiree basis

Name	RETIREE NAME	Date of Death	Refund Amount	Notes
Lindy D. Hannah	Mildred Dotson	3/2/2019	\$99.82	
Kevin L. Willingham	Joe Willingham	4/1/2019	\$159.25	

PART II -- ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year		291,139.82		FY2018
Fiscal Year to Date		225,809.53		FY2019
Cavanaugh Macdonald	8,888.00		2/28/2019	GPP valuation
Cavanaugh Macdonald	9,125.00		3/31/2019	GPP valuation
Cavanaugh Macdonald				GPP GASB 67 & 68
Cavanaugh Macdonald	2,164.00		1/31/2019	Experience Study
Cavanaugh Macdonald	3,437.00		2/28/2019	Experience Study
Miller & Martin				
Chattanooga Times Free Press	38.07		2/14/2019	Meeting ad
Gavion, LLC	25,000.00		3/31/2019	Investment consulting services
First Tennessee Bank	28,183.56		12/31/2018	Administrative expense
City of Chattanooga services	45,000.00		5/20/2019	Administrative expense annual
COMPANY TOTAL	121,835.63	225,809.53		

Investment Managers -- Fees Paid

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	YTD		
Fiscal Year		386,058.03		FY2018
Fiscal Year to date		267,404.12		FY2019
Chartwell	8,330.06		3/31/2019	Investment management fees
Kennedy Capital Management	31,919.00		3/31/2019	Investment management fees
Patten & Patten	13,093.16		3/31/2019	Investment management fees
Sustainable Insights	7,804.76		3/31/2019	Investment management fees
Wedge Capital	28,043.86		3/31/2019	Investment management fees
MANAGER TOTAL	89,190.84	267,404.12		

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Fiscal Year		\$388,867.30	FY2018
Fiscal Year to date		\$504,681.32	FY2019
Delta Venture Partners II, LP	7,358.32	3/20/2019	distribution
DTC Diversified Partners III	\$62,500.00	3/4/2019	distribution
SEC vs Dollar General Corp			distribution
Northern Trust			class action litigation settlement
General fund reimburse for payment to CMC			<i>Plan Options request</i>
COMPANY TOTAL	69,858.32	\$504,681.32	

REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal Year		7,368,000.00		FY2018
Fiscal Year to Date		6,021,000.00		FY2019
iShares Russell 1000 Growth	400,000		2/25/2019	to pay benefits
iShares Russell 1000 Growth	800,000		3/20/2019	to pay benefits
iShares Russell 1000 Growth	200,000		4/18/2019	to pay benefits
GoldenTree Distressed Fund	375,000		5/6/2019	capital call
MISCELLANEOUS TOTAL	1,775,000.00	1,775,000.00		

REPORT OF ACCOUNT(S) PAID

COMPANY	AMOUNT PAID		MONTH	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year		144,094.66		FY2018
Fiscal Year to date		95,740.37		FY2019
The Hartford	10,582.78		2/28/2019	Long Term Disability (50%)
The Hartford	10,685.76		3/31/2019	Long Term Disability (50%)
The Hartford				Long Term Disability (50%)
The Hartford				Long Term Disability (50%)
The Hartford				Long Term Disability (50%)
TOTAL	21,268.54	95,740.37		

**CITY OF CHATTANOOGA OPEB TRUST
 ADMINISTRATIVE ACTIONS**

PART II -- ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year		61,333.02		FY2018
Fiscal Year to Date		28,660.48		FY2019
Cavanaugh Macdonald				OPEB valuation
Cavanaugh Macdonald	2,257.75		1/31/2019	OPEB GASB 74/75
Gavion, LLC	5,000.00		3/31/2019	Investment consulting services
First Tennessee	4,654.55		12/31/2018	Administrative Expense
COMPANY TOTAL	11,912.30	\$28,660.48		

Investment Managers -- Fees Paid

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year		21,518.31		FY2018
Fiscal Year to Date		-		FY2019
MANAGER TOTAL	-	-		

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Prior quarter total				
COMPANY TOTAL		0.00		


REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal year		8,427,086.14		FY2018
Fiscal year to date		215,070.20		FY2019
iNetworks	61,884.70		3/18/2019	capital call
iNetworks	22,848.44		5/7/2019	capital call
MISCELLANEOUS TOTAL	84,733.14	215,070.20		

APPROVED:



Chairman



Secretary