MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

November 15, 2012

The regular meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on November 15, 2012 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Katie Reinsmidt, Dan Johnson, Terry Lamb, Steve Perry, and Carl Levi. Others attending the meeting were Valerie Malueg, City Attorney's Office; Steve McNally and Teresa Laney, First Tennessee Bank; Scott Arnwine, Consulting Services Group; Donna Kelley, Madeline Green, and Cheryl Powell, City Personnel Department; and Todd Gardenhire.

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

Carl Levi made a motion to approve the minutes of the August 16, 2012 meeting. Dan Johnson seconded the motion. Daisy indicated one correction on page 4 to state that Carl Levi seconded the motion (pertaining to the slate of officers). The minutes of the meeting held on August 16, 2012 were unanimously approved as corrected.

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.

Steve Perry made the motion to approve the administrative actions. Terry Lamb seconded the motion. There was no discussion. The administrative actions were unanimously approved by the Board.

Daisy requested that the fifth agenda item pertaining to the RFP and Selection of the Actuary be presented before the CSG performance review. Cheryl Powell presented the summary of the top four responders to the RFP and the recommended choice for performance of actuarial services. The comparison included EFI among the finalists. A committee of persons participated in reviewing the submitted material and conducting the face to face interviews, the recommendation was made to make the next contract with Cavanaugh-Macdonald Consultants, Inc. (CMC)

- *Dan Johnson asked why CMC was selected above the Gabriel, Roeder & Smith firm. Both Daisy and Donna Kelley answered that cost is important, but not the only considerations. Upon interview, CMC was more presentable to the board. They conveyed a willingness to be responsive within our timeframes without additional cost and a willingness to work with us on an ad hoc basis.*
- *Terry Lamb asked about the alternative funding calculation method alluded to in the comments that may be an option for determining the funding percentage. The CMC patented method for smoothing in the valuation calculations was alluded to on the website but not formally discussed in their presentation. This method affords an alternative systematic method to the standard actuarial method to determine the funding level in a down cycle as opposed to the up cycle. Daisy explained that EFI provided an alternative calculation for the funding arrangement for the cycle following the 2008 market effects at the time of that valuation and subsequent valuations. The ultimate decision about any funding method that is used rests with the Pension Board.*
- *Dan asked if references had been checked. Each respondent provided reference information pertaining to current clients and terminated clients. But no information had been passed along from purchasing as to checked references.*

Dan Johnson made a motion to authorize the negotiation of a contract with CMC including checking references. Carl Levi seconded the motion. The board unanimously approved proceeding with negotiations.

Consulting Services Group Performance Review of 3rd Quarter 2012

Third Quarter performance – Scott Arnwine

Overall 3Q was a great quarter. There are positive trends in the US and perceived vigor in Europe. Most asset classes were positive reversing the negatives from 2Q. Markets slowed down during the election particularly because of the discussion about the fiscal cliff.

On page 3 of the Third Quarter Summary, the return on the fund was up for the quarter and year-to-date for an overall solid performance. Periods ending 1yr, 3yrs, & 10yrs are above the actuarial assumption with the 5yrs result still below the assumption. The 5 yrs return more heavily reflects the impact from 2008. Managers are providing value above the Chattanooga composite indices by period. For the 10 year period, the 7.9% return was in line or better than the indices for S&P 500, MSCI EAFE, HFRI fund of funds, and the Barclays Aggregate.

The market value now stands at $231 M. The fund has rebounded from the 2008 decline as indicated on the chart on page 6. One year ago, the fund was $200M, two years ago $190M and three years ago below $160M, illustrating significant growth back toward the $250M experienced in 2007. Periodic contributions coupled with higher distributions result in net contributions that have been declining over time, so investment gains are the larger part of the current market value.

On page 10 is the public funds comparison and reflects a composite of results of entities that choose to respond. The GPP continues to struggle with the 5 year time period compared to peers. The 1, 3, and 10 year periods have results at or near top quartile while the 7 year is in middle. This graphic reflects how decisions made have worked out over time as well as the impact of changing managers.

Investment results – Scott Arnwine

Results by manager are on page 3. It was a positive quarter for equity: all sectors were up, energy was the top performing sector and managers underweight in the sector performed below the index while managers overweight were at or above the benchmark. Managers with cash positions of significance (2-3%) have poorer performance.

Total equity was up 5.9% for the quarter.

Patten and Patten had a strong quarter. They have been a manager since 1996. Scott suggests having them in for either the 1Q or 2Q meeting to speak to the board this year and provide insight into their process and their investment philosophy. Their results were driven by consumer financials and IT and they were slightly underweight energy.

NWQ, a value manager, had results slightly above the benchmark in quarter. They too have been a manager for a number of years. Their results have been mixed due to a bias toward energy and gold but they came back by end of quarter. GM did well for them, as housing correlates strongly with truck sales.

Wedge, also a value manager, but different from NWQ because they add a momentum factor to benchmark. They tend to buy names after a run-up so they tend to be behind in a rise. Overall they still performed well for the quarter.

The small cap managers had good performance as a whole vs. Russell 2000.

Insight, a growth manager, was at 6.4% for the quarter. Results were positive in all sectors. KB Home (housing) and Peet's Coffee and Tea (bought for 38% premium) performed particularly well for them this quarter.

The two newest managers, Kennedy was at 4.5% and London Company was at 6.7% for the quarter. Both are now fully invested.

THB Microcap slightly outperformed its benchmark.

For Thornburg, International markets recovered during the quarter but the outlook is still for volatility in the coming months. They expressed the following concerns: as EU struggles with economic uncertainty and fiscal austerity, prospects for economic malaise will continue. Signs of economic recovery in US are mixed and China's policy for the slowing economy will not be known until transition of leadership in November 2012. They will maintain focus on financially sound companies and have modest exposure to the EU. Emphasis will be on exporters within the EU and broad diversification across the portfolio. They will take positions to mitigate near term volatility and position the portfolio for long term capital appreciation.

Advancers included Adidas, SAP, KDDI, and Siemens. Detractors include Canon (digital camera will struggle against smart phones), Komatsu (increased demand in China due to increased competition from internal Chinese manufacturers) and Toyota.

Among alternative investment managers:

- Hedge fund – Both managers outperformed their benchmarks for the quarter, but there are frustrations in finding the right mix of long and short assets to cover bad situations. Ironwood is more diversified than Pointer. Pointer results were at 3.0% for 3Q; Ironwood fund of funds were at 2.2% for 3Q.
- Real Estate – Duff and Phelps was slightly negative for the 3Q. Advancers include self storage and industrial.
- Fixed income private equity: There are fewer opportunities to exceed benchmark as the higher yield bonds mature leaving reinvestments at lower yields; overall performance is 4.0% versus benchmark of 3.3%. Brandywine Global, at 5.3% versus benchmark of 3.0%, is outperforming with 80% of holdings in non-US positions (Poland, Mexico, Australia, South Africa) and the remainder in investment grade corporate bonds. Prudential, who includes only investment grade bonds and exclusively US corporate bonds, was even with their benchmark for 3Q.
- 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 above the quarterly benchmark but below the overall benchmark.

Scott proceeded to a presentation to respond to the question Terry Lamb had asked last meeting pertaining to what the inevitable increase in bond rates would do to our portfolio. This future rise in rates may not occur until sometime in 2015. Scott passed out a graph showing the market price change given a 1% rise in interest rates. The graph does not capture total return. There are more dramatic pricing effects for Treasuries than on corporate bonds and other bond like investments. It is important to remain diversified in the portfolio (fixed income instruments impacted less than Treasuries) and monitor the duration of the portfolio. It is also important to consider that as rates rise or fall, spreads change at the same time. On our portfolio, each manager would hedge or otherwise manage the impact to the portfolio. But for academic study with rates increasing <u>over a 1 year period</u>, at a 50 basis point (bp) increase, the total return on the existing portfolio would be 2.92%. The level of total return would be roughly 140 bp less than the 2.92% for each additional 50 bp increase in interest rates. There were disclaimers on the results that these are projections, that the results do not reflect spread changes, and that no market reaction was included in the model. The takeaway is that a rate increase would have a negative impact to our portfolio all things remaining the same. Perhaps there is a need to evaluate how to shorten the duration of the portfolio in anticipation of a rate increase.

Terry Lamb responded that this is what he was looking for and the portfolio is less sensitive that he expected. He would like some education given regarding the impact of the inflation component as a buffer on the results.

Scott maintains that the Board's past allocation decisions have had a more positive than negative impact on overall results. CSG proposes to present a review and a restructuring/reallocation of the fixed income portfolio in February. For example, Prudential has a large corporate allocation and is source of sensitivity and may need to be reduced. For high yield bonds, the focus can be maintained but perhaps replace the current managers with a single manager.

Next, Scott gave a presentation about the Real Estate market valuation. Katie is present and is welcome to comment as necessary.

Real estate is 3.2% of portfolio. Duff and Phelps, manager since August 2005, has performed well typically beating their benchmark, and have closely tracked the actuarial assumption during the entire time period. The allocation has been modified over time to balance the portfolio. REITs are expensive but pricing tends to be within the norms. REITs do have a place in our portfolio. There are opportunities to explore, perhaps in a fund, but this would have a J-curve effect due to heavier expenses early. It is important to not lock up the funds for long periods of time unless it would exceed our actuarial assumption. There are opportunities in global REITs. With our size allocation, this would be a replacement and not a split of the current allocation. The Committee in the past has not recommended direct or distressed investments.

Katie provided some insight on the investment. She provided a few takeaways. Companies are rewarded on valuations on the private side more than on the public side of the market. This is narrowing as capitalization (cap) rates and valuations for companies are improving over time. Some sectors are overvalued and some have not been rewarded on the valuation side; thus, a manager can be selective and create value going forward. There is a historically wide spread between interest rates and where cap rates are making room for credit equity and for companies to come in and drive the cap rates down meaning valuations go up. It is still a good place to continue to be for diversification with appropriate allocation.

Scott continued that underlying assets within REITS continue to improve. REITS are institutional assets and institutional investors use them to produce extra yield.

Katie gave some additional thoughts on global versus US: global is higher risk, is more of an emerging market and gaining popularity. It could be used as a diversification tool.

Scott suggested that the Board continue to maintain the REIT allocation.

Education Day Discussion

Scott provided the agenda to the trustees for one public fund summit in Arizona, a conference the trustees may be interested in pursuing for their continuing education or for an education day.

Valerie Malueg indicated that membership in professional organizations is one method to obtain educational seminars. She reminded the members of the discussion last meeting regarding the National Association of Pension Organizations. Some memberships would be for the Board while others would be for individuals. These are options to consider to increase educational opportunities for the Board or board members. Membership is some organizations is an individual decision and requires payment of dues. Some past board members have attended educational seminars provided by such organizations in the past.

Scott Arnwine suggested attendance at CSG’s internal educational seminars where presenters are brought in to speak on topics of current interest. An annual conference is scheduled for May, which includes speakers, and typically covers four topics.

Carl Levi made a motion that the Board authorize up to two members to attend the conference. Steve Perry seconded the motion. There was no further discussion. The Board approved the motion unanimously.

2013 COLA for Retirees

Carl Levi made a motion to keep the COLA at 3%. Donna Kelley explained that the percentage COLA is established by ordinance. To make a change to the COLA percentage, the Board must initiate a process that involves approval of the Mayor and City Council. Valerie Malueg added that the charter was changed 1/1/2000 to include the 3% COLA. The percentage can be changed by City Council based on an actuarial report and a recommendation from the Pension Board. From this it is determined that no motion is needed to maintain the 3%. There is no recommendation to change the COLA percentage.

Report from Counsel

Valerie Malueg said that there is no current report.

Other Business

Donna Kelley addressed the Board regarding the state of the General Pension Plan in light of her retirement as of 12/31/2012. There are a few open or incomplete issues that will need to be addressed.

- Records: There is no official recordkeeping system. The Board should consider allocating funds for records maintenance. The General Pension Plan website is not operative and is in need of updates. For example, there is a need for an official repository for contracts.
- Audit: There is a need for stated policies and procedures. The Board does not have a set of operational guidelines or procedures. There is a need to have such a volume since there is a loss of knowledge as long-term employees terminate or retire. Such a manual should address the benefit application rules and process, the designation of beneficiaries, and other procedural matters.

Dan Johnson suggested that this is an opportune time to re-activate the General Pension Plan website and to update/maintain posted material. There is a question as to who would be the ‘go to person’ for such a project.

The meeting was adjourned.

ATTACHED REPORTS

CITY OF CHATTANOOGA GENERAL PENSION PLAN
ADMINISTRATIVE ACTIONS

PART I – PARTICIPANT SUMMARY

SUMMARY OF PENSION APPLICATIONS

NAME	DEPARTMENT	TYPE/OPTION	MONTHLY AMOUNT	EFFECTIVE DATE	NOTES
Cameron, Earline	Human Services	Normal-Option D	$308.46	7/1/2012	Term. Vested
Hipp, Michael	EAC	Normal-no option	$2,236.23	11/1/2012	
Hogue, Lonnie	Library	Immediate Early-no option	$1,045.22	10/1/2012	
Hooper, Arnold	General Government	Normal-Option B	$2,089.07	10/1/2012	DROP of $57,902.22
Johnson, Ron L	General Government	Normal-no option	$200.92	12/1/2012	
Scoggins, David	Fire Administration	Normal-Option A	$377.12	12/1/2012	
Tisdale, Willie	Human Services	Normal-no option	$497.98	11/1/2012	
Williams, Kathy	IT	Normal-Option B	$311.34	7/1/2012	Term. Vested

BENEFIT REVISIONS/CONVERSIONS-PENDING BOARD REVIEW/APPROVAL

NAME	TYPE/OPTION	PREVIOUS AMOUNT APPROVED BY BOARD	REVISED AMOUNT	EFFECTIVE DATE

no activity

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

NAME	OPTION	DATE
Bryson, Luther	Option B	9/21/2012
Johnson, Dan	Option B	10/15/2012
Pitts, Tommy J	Option B	10/22/2012
Alexander, Timothy L.	Option C	11/6/2012

DISABILITY BENEFIT REPORT

NAME	TYPE	MONTHLY DISABILITY BENEFIT AMOUNT	EFFECTIVE DATE

LUMP SUM DISTRIBUTIONS (FOR RATIFICATION-CHECKS PROCESSED)

Return of Contributions

NAME	DEPARTMENT	EMPLOYEE NUMBER	TERMINATION DATE	REFUND AMOUNT	Notes
Abdulameer, Zainab	General Government	65613	8/9/2012	$3,067.23	
Bennett, Holly	Finance	65592	1/12/2012	$637.24	
Bonner, Marquis	Public Works	67990	8/24/2012	$149.98	
Carter, James A	Public Works	67242	9/18/2012	$1,316.39	
Cena, John	Public Works	62676	4/2/2012		
Grainger, Teresa	Police	61472	6/30/2008	$4,741.12	rollover request
Haynes, Clayton	Public Works	64434	8/15/2012	$3,514.34	
Hulsey, Marcus	Parks and Recreation	55901	6/30/2011	$4,590.01	
Jackson, Michael	Parks and Recreation	56343	7/23/2012	$2,540.04	
Leffew, Eric	Public Works	63230	9/11/2012		
McCrary, Aaron	Public Works	44309	9/14/2012	$2,005.31	
Roberts, Jennifer	Police	62915	7/26/2012	$426.46	
TOTAL				**$20,556.35**	

Return of deceased retiree basis

NAME	RETIREE NAME	DATE OF DEATH	REFUND AMOUNT	Notes
Hudson, Carol	Virginia Hudson	8/10/2012	$369.19	
Skinner, Harold	Charles Skinner	9/21/2012	$808.77	
Horton, Sheila	Ronnie Horton	7/27/2012	$2,373.62	
Clarke, Hazel	Erskine Starkey	9/23/2012	$283.64	
TOTAL			**$3,835.22**	

PART II – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	PURPOSE
Prior quarter total		**$284,413.30**	FY2012
		$0.00	FY2013
CONSULTING SERVICES GROUP	$17,856.16		Consulting services for quarter ending 9/30/2012
FIRST TENNESSEE	$28,141.92		General Pension plan expense for period ending 9/30/2012
COMPANY TOTAL	**$45,998.08**	**$45,998.08**	

INVESTMENT MANAGERS

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	PURPOSE
Prior quarter total		**$322,739.69**	FY2012
NWQ INVESTMENT	$25,576.75	$76,003.58	Investment management fees for quarter ending 6/30/2012
DUFF & PHELPS			Investment management fees for quarter ending 9/30/2012
INSIGHT	$16,556.08	$16,556.08	Investment management fees for quarter ending 9/30/2012
PATTEN & PATTEN, INC.	$9,877.32	$9,877.32	Investment management fees for quarter ending 9/30/2012
SMH CAPITAL ADVISORS	$8,195.03	$8,195.03	Investment management fees for quarter ending 9/30/2012
WEDGE CAPITAL	$23,023.27	$23,023.27	Investment management fees for quarter ending 9/30/2012
KENNEDY CAPITAL MGM	$10,912.00	$10,912.00	Investment management fees for quarter ending 9/30/2012
MANAGER TOTAL	**$25,576.75**	**$348,316.44**	FY2012
MANAGER TOTAL	**$68,563.70**	**$68,563.70**	FY2013

ACCOUNTS PAYABLE – *INVESTMENT MANAGERS* (REVISION)

No Activity

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	EFF DATE	PURPOSE
Diversified Partners III, L.P.			
COMPANY TOTAL	**$0.00**		

REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS

COMPANY	AMOUNT	FYTD	EFF DATE	PURPOSE
FY2012 total		**$3,950,000.00**		for informational purposes
Prior quarter total		**$250,000.00**		FY2013
Northern Trust Investments	$600,000.00		8/24/2012	withdrawal to cover August benefit payments and miscellaneous expenses
Northern Trust Investments	$450,000.00		9/19/2012	withdrawal to cover September benefit payments and miscellaneous expenses
Northern Trust Investments	$650,000.00		10/24/2012	withdrawal to cover October benefit payments and miscellaneous expenses
MISCELLANEOUS TOTAL	**$1,700,000.00**	**$1,950,000.00**		FY2013 to date

REPORT OF ACCOUNT(S) PAID

	AMOUNT PAID		
COMPANY	THIS PERIOD	FYTD	PURPOSE
FY2012 total		**$106,091.55**	
Prior quarter total		**8,910.30**	
THE HARTFORD	$8,910.30		Long term disability (50%) - August 2012
THE HARTFORD	$9,162.70		Long term disability (50%) - September 2012
THE HARTFORD	$9,209.90		Long term disability (50%) - October 2012
THE HARTFORD	$9,240.04		Long term disability (50%) - November 2012
LTD TOTAL	**$36,522.94**	**$45,433.24**	**FY2013 to date**

CITY OF CHATTANOOGA OPEB TRUST
ADMINISTRATIVE ACTIONS

PART I – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	PURPOSE
FY2012		**$9,770.67**	
Prior quarter total		**$0.00**	
FIRST TENNESSEE	$1,830.91		Custodial services for quarter ending 9/30/2012
COMPANY TOTAL	$1,830.91	**$1,830.91**	

INVESTMENT MANAGERS

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	PURPOSE
Prior quarter total		**$0.00**	
MANAGER TOTAL	$0.00	**$0.00**	

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	PURPOSE
Prior quarter total		**$0.00**	
COMPANY TOTAL	$0.00	**$0.00**	

APPROVED:

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Chairman

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Secretary