

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

**February 19, 2015**

The called meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on February 19, 2015 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Erskine Oglesby, Katie Reinsmidt, and Mayor Andy Berke. Michael Baskin from the Mayor's office was also in attendance. Others attending the meeting were Valerie Malueg, City Attorney's Office; Teresa Laney, First Tennessee Bank; Scott Arnwine, Gavion, LLC; and Cheryl Powell, City Human Resources Department.

The meeting was called to order by Chairwoman Daisy Madison.

A quorum was present at the beginning of the meeting.

**Approval of Minutes**

*Erskine Oglesby made a motion to approve the minutes of the January 22, 2015 meeting. Katie Reinsmidt seconded the motion. The minutes of the meeting were unanimously approved.*

**Administrative Actions**

Cheryl Powell presented the Administrative actions for the previous quarter. Cheryl noted that there is one correction to be made to include the liquidation of Prudential assets to pay benefits.

*Katie Reinsmidt made a motion to approve the administrative actions with the correction for liquidated assets. Erskine Oglesby seconded the motion. The administrative actions were unanimously approved.*

**Manager interviews for Private Debt – Gavion**

Scott Arnwine provided a short overview concerning private debt and the recommended allocations for the two funds. The General Pension Fund will invest approximately 5% of the assets into the Private Debt asset class. The reallocation will come from core fixed income assets. Private Debt is being added as an asset class to diversify the income generation in the portfolio and increase the probability of attaining the assumed actuarial return in the portfolio. Private Debt consists of non-traditional loans made to borrowers who are not able to borrow from large institutional lenders generally due to the smaller size of the borrower. There are two managers that will be interviewed, GoldenTree and Medley, and these managers operate in different environments. GoldenTree primarily deals with public securities that distressed on a global basis. Medley primarily makes direct loans to middle market sized U. S. companies that cannot obtain traditional loans from banks in the current economy.

The first presenter is GoldenTree for the GoldenTree Distressed Fund 2014 Series I. Marina Mekhlis, Director Business Development, Ted Lodge, Global Head of Restructuring and Turnarounds and Ted Roosevelt, Director of International Business Development represented the company. Marina Mekhlis made opening remarks to describe the firm and its business. She introduced her colleagues to the Board. Daisy had the board members introduce themselves as well.

Even though loan default rates have been historically low the past five years, there has been a recent spike in loan default rates. The current economic environment is on the verge of providing opportunities for returns arising from restructuring the distressed debt and turnarounds of struggling middle market companies. The need for restructuring debt may arise from changes in operations or the need to restructure capital. GoldenTree employs teams of professionals and works with industry specialists to define its business model and strategy. GoldenTree internally develops business skills in operational, legal, or financial restructurings and looks for the

“right” managers or boards of directors or the “right” capital structure for long term viability of the distressed entity.

- GoldenTree has offices on New York and London.
- The Distressed Opportunity fund is a private equity style fund investing in distressed and stressed investments. The General Pension Plan will be investing in the Distressed Fund 2014 Series I with initial closing July 2014 and final closing up to 12 months following.
- The fund is seeking to raise \$1.2 B and already has \$900 M.
- The fund seeks to return mid to high teen net returns over the term of the fund. The preferred return is 8% net of fees and expenses. There is a 20% incentive fee on called capital, payable after the preferred return is achieved.
- The management fee structure is outlined in the presentation as 150bp per annum. Fund expenses are approximately 45bp.
- GoldenTree considers a 3-4 year horizon (typically restructuring is one year and harvesting is approximately 2 years; turnaround is 2-3 years and harvesting is approximately one year) to meet the investment timeline and generate value.

The second presenter is Medley – Medley Opportunity Fund III LP. Christopher Taube, Senior Managing Director and Scott von Stein, Principal, represented the company. Daisy introduced the board to the representatives.

Medley directly lends to middle market U. S. companies with \$50m to \$500m in revenue, about 40% of the U. S. economy, that are not served by Wall Street and unable to secure loans from regional banks. Medley does seek to provide downside protection by being the lead or sole lender and actively managing on the credit side. About 75% of the loans are senior secured loans or first liens. Most of the loans are floating rate loans at LIBOR plus 8-9% with a 1% floor on LIBOR. Medley has a committee to work on restructuring loans that fail; however, restructuring companies or takeovers is not a primary focus area. Medley desires to lend to healthy, viable companies and is not focused on being a distressed lender.

In the prior fund with 50 positions, there were 3 loan failures with anticipated recovery rate of 80-90% of the loaned amounts. Thus far the realized gains exceed realized losses for the fund.

- The new fund is the Medley Opportunity Fund III LP. The investment period ends June 30, 2017. The fund has scheduled amortizations for maturities to pay investors.
- The fund is seeking to raise \$800 million.
- The fund term is 7 years.
- The fund seeks to return 9-10% net returns over the term of the fund. The preferred return is 6% net of fees and expenses. There is a 15% carried interest, payable after the preferred return is achieved.
- The management fee structure is outlined in the presentation as 150bp (75bp on committed capital, 75bp on the invested capital). In the presentation, it was stated that ultimately the fee is 250bp on each dollar invested.
- Medley has an average 4-5 year term of individual loans; however prepays can shorten the loan period to 3-4 year. The average loan size is in the range of \$30-60 million.

Scott Arnwine stated that the General Pension Plan would be investing from 10-15 million in this asset class. The funds could be invested in one company or split between both companies at the board’s pleasure. As a recap of the presentations, Medley has lower but steady returns while GoldenTree has higher targets with more volatility. Gavion has investors who have had experience with both companies. Regardless of which company is selected, the likelihood of returns exceeding the fixed income expectations is high, since core fixed income is expected to yield 3%. The investment period is short relative to the long horizon for pension obligations and this asset class will support the shorter term goals. After some discussion it was recommended that the investment be split between the two companies with 70% of the amount to Medley and 30% of the amount to GoldenTree. The amount is 5% of the General Pension Plan portfolio at a near future date to be determined.

***Mayor Andy Berke made a motion to allocate an amount representing 5% of the General Pension Plan portfolio on a near future date to be determined as 70% of the amount to Medley and 30% of the amount to GoldenTree. Katie Reinsmidt seconded the motion. There was no further discussion. The motion carried.***

#### **Performance Review Fourth Quarter 2014 - Gavion**

Scott Arnwine provided a brief recap of the investment performance for the fourth quarter. Markets overall were positive in 2014; however, rates rose 50bp and then plunged 50bp in 2014 creating a negative environment for fixed income. Equities were positive for the year due to S&P improvement to above 14% and a small cap market rally in 4Q. Non U.S. equities results were negative because positive returns were reduced due to currency translations.

The portfolio earned 4.4% for the year, which is below the anticipated return. The main drivers of performance were that managers did not track well against indices and the relative allocation to equity in our plan is on the low side. Manager performance in 2014 in general (not just in our plan) was less than expected with 87% of active managers in general underperforming their benchmarks. The main drivers of this underperformance were (1) seesaw types of results for just staying the course, (2) the presence or absence of Apple stock where 10% of S&P return was attributed to this one stock (without it a manager underperformed) and (3) the relative investment weight in the energy sector (those who had too much underperformed). In our portfolio, Herndon tends to give double weight to energy and it hurt their performance in 2014. Most managers were in line with benchmarks and those that were not are explainable. In 2015 to date, most managers that lost have made up those losses.

Relative to our policy guidelines, the portfolio is above the actuarial assumption on the long term performance. In the Total fixed line item, the red value occurs due to being under the minimum of 20% mainly due to growth in equities. The recommendation to alleviate this violation is to liquidate from equities to adjust the balance between fixed and equity asset classes.

New international manager OFI came on during 4Q. Their result was positive during the quarter for the period of time they were invested.

For OPEB, results were positive and above benchmark for the year.

#### **OPEB Trust Fund Consulting Services Agreement**

Daisy Madison presented an amendment to the current consulting agreement to add the OPEB fund since Gavion is providing consulting services for this fund.

A short discussion ensued. It was decided that before signing this amendment, the Trust structure and the consulting agreement needs to be reviewed and modified to provide for services rather than just adding an amendment. Valerie stated that the amendment just addressing the fees may not be sufficient in itself to modify the contract for providing services. There may not be a signature line needed for the Trust depending on Trust structure. The Plan itself, that is, the board, may need to sign rather than having a signature line for the Trust.

Daisy raised some questions: Does the contract allow for additional services or do we need to do an RFP? The original RFP may not have included OPEB. OPEB was created after the last RFP for consulting services.

#### **Report from Counsel**

The funding policy for the pension plan needs to be addressed. A draft of the most recent version including all changes to date was sent to the trustees and others on the distribution list. Daisy pointed out one item to board in the Statute provisions concerning Contributions on page 2 and the third and fourth bullet, basically stating that plan terms and design may be modified on a prospective basis only, and that accrued benefits already earned cannot be changed.

Valerie Malueg stated that City Council has to approve the policy, and then the policy needs to be submitted to the State for approval. It would be best to approve the policy today since time is short in order to put the policy into place.

Even though a quorum was not present due to the early departure of one of the members, the board did consider this document for approval.

***Erskine Oglesby made a motion to accept as final the provisions in the current draft of the Pension Funding Document. Katie Reinsmidt seconded the motion.***

In order to record the acceptance of this document, Valerie Malueg will draft a Resolution to be signed by the Secretary that the Board has approved this policy.

Scott Arnwine brought up an issue not on the agenda concerning a change of fees in the OFI Global Asset Management (Oppenheimer) Funds contract. This represents a fee reduction from the original statement of fees. The change needs to carry a signature.

***Erskine Oglesby made a motion to accept the fee reduction and sign the OFI Global Asset Management amendment. Katie Reinsmidt seconded the motion.***

Scott Arnwine also reminded the Board of the trustee educational and charitable event sponsored by Gavion that will take place May 13-15.

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

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

**Meeting of Trustees  
February 19, 2015**

**PART I - PARTICIPANT SUMMARY**

**SUMMARY OF PENSION PLAN APPLICATIONS**

Name	Department	Type	Option	Monthly Amount	Effective Date	DROP	Notes
Bowen, Edward	Public Works	Normal	no	\$2,730.75	2/1/2015	\$35,203.63	
Cannella, Alice	Public Works	Normal	no	\$3,535.62	1/1/2015		
Ebersole, Anita	Public Works	Normal	E	\$1,675.51	12/1/2014		
Guest, Theora	General Government	Rule of 80	no	\$1,575.05	2/1/2015	\$63,646.42	
Harden, Harold	Public Works	Normal	no	\$568.76	2/1/2015		
Harvey, Walter	Human Services	Normal	no	\$675.57	1/1/2015		
Hixon, Daniel	General Services	Normal	B	\$1,559.16	1/1/2015		
Kelley, Judy A	Library	Normal	E	\$2,939.47	1/1/2015	\$41,662.85	
McBryar, Marilyn	ECD	Rule of 80	no	\$1,619.54	2/1/2015		
Moore, Dennis	Public Works	Normal	C	\$621.25	1/1/2015		
Moore, John A	General Government	Rule of 80	A	\$1,962.42	2/1/2015	\$85,463.57	
Morgan, James L	Public Works	Normal	A	\$1,165.39	1/1/2015		
Parham, Doris	ECD	Normal	no	\$1,170.67	1/1/2015		
Poole, Deborah	Police services	Normal	no	\$790.48	1/1/2015		
Watkins, Mary Lee	Human Resources	Rule of 80	D	\$1,852.57	1/1/2015		
White, Ruby L	General Services	Normal	A	\$1,117.81	12/1/2014		

Count 16

**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
James E. Martin	B	1/23/2015
Charles E. McMahan	B	1/30/2015

**DISABILITY BENEFIT REPORT**

NAME	TYPE	Employee Number	Monthly Benefit Amount	Effective Date	Notes
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**LUMP SUM DISTRIBUTIONS (FOR RATIFICATION - CHECKS PROCESSED)**

**Return of contributions**

NAME	Department	Employee Number	Refund Amount	Termination Date	Notes
Backus, Margaret	Library	69425	\$2,148.63	9/8/2014	
Bible, Matthew	Police Services	68424	\$1,317.19	10/30/2014	
Boykin, Corey	Public Works	68837	\$1,824.14	12/29/2014	
Brandt, Mark	Public Works	72816	\$350.26	10/13/2014	
Bronner, Brenda	Parks & Rec	62750	\$3,617.12	9/18/2014	
Cannon, Jeff	Mayor office	71095	\$2,835.89	7/31/2014	
Davis, Angela D	City Attorney office	65722	\$1,016.92	11/3/2011	LTD
Davis, Joel T	Public Works	67326	\$2,862.66	12/25/2014	
Freeman, Sandra	GG Council Office	71099	\$1,776.81	12/12/2014	
Fugh, Shakelia	YFD	65076	\$149.39	12/5/2014	
Holmes, Martin K.	Public Works	66433	\$1,859.67	9/18/2014	
Jenkins, Countess	ECD	66902	\$1,138.74	12/11/2014	rehired retiree option
Kramer, Ryan	General Services	70913	\$886.97	10/10/2014	
Lockhart, Joe L	Public Works	68632	\$1,719.24	12/9/2014	
Nance, Joshua D.	Public Works	70934	\$364.93	9/17/2014	
Shank, Heather	RPA	70814	\$1,696.37	11/12/2014	
Sutton, Jeremy	Public Works	73005	\$250.38	9/26/2014	
Webb, Katie R.	Airport	na	\$3,055.13	10/24/2014	

**Return of deceased retiree basis**

Name	RETIREE NAME	Date of Death	Refund Amount	Notes
Angelina Brooks	Annette Allison	10/17/2014	\$1,043.90	
Jamie Allison	Annette Allison	10/17/2014	\$1,043.90	

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date Cavanaugh Macdonald		118,570.46		FY2015
Chattanooga Times Free Press	40.80		12/31/2014	Meeting ad 11/13/2014
Chattanooga Times Free Press	40.80		3/31/2015	Meeting ad 1/15/2015
Gavion, LLC	25,000.00		12/31/2014	Investment consulting services
First Tennessee Bank	29,100.99		12/31/2014	Administrative expense
<b>COMPANY TOTAL</b>	<b>54,182.59</b>	<b>172,753.05</b>		

***Investment Managers -- Fees Paid***

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	YTD		
Fiscal Year to date - prior quarter		152,908.76		FY2015
Herndon	50,228.46		12/31/2014	Investment management fees Investment management fees
Insight	20,151.53		12/31/2014	Investment management fees
Kennedy Capital Management	15,539.00		12/31/2014	Investment management fees
Chartwell	7,268.20		12/31/2014	Investment management fees
Wedge Capital	34,243.38		12/31/2014	Investment management fees
The London Company	15,164.45		12/31/2014	Investment management fees
SMH Capital Advisors	57.70		12/31/2014	Investment management fees
Patten & Patten	11,771.46		12/31/2014	Investment management fees
<b>MANAGER TOTAL</b>	<b>154,424.18</b>	<b>307,332.94</b>		

**ACCOUNTS RECEIVABLE**

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Prior quarter total			

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**COMPANY TOTAL**

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**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal Year to Date		37,313,954.00		FY2014
Fiscal Year to Date		3,400,000.00		FY2015
Prudential	1,100,000		10/27/2014	liquidation to pay benefits

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**MISCELLANEOUS TOTAL**      **1,100,000.00**      **4,500,000.00**

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**REPORT OF ACCOUNT(S) PAID**

COMPANY	AMOUNT PAID		QUARTER	PURPOSE
	THIS PERIOD	FYTD	ENDING	
Fiscal Year to date		45,601.38		FY2015
ING	15,194.19		10/31/2014	Long Term Disability (50%)
ING	15,097.85		11/30/2014	Long Term Disability (50%)
ING			12/31/2014	Long Term Disability (50%)

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**TOTAL**      **30,292.04**      **75,893.42**

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**CITY OF CHATTANOOGA OPEB TRUST  
 ADMINISTRATIVE ACTIONS**

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER	PURPOSE
	THIS PERIOD	FYTD	ENDING	
Fiscal Year to date		\$12,262.19		FY2014
Prior quarter total		\$8,082.10		FY2015
First Tennessee	3,625.84		12/31/2014	Administrative Expense
<b>COMPANY TOTAL</b>	<b>3,625.84</b>	<b>\$11,707.94</b>		

*Investment Managers -- Fees Paid*

COMPANY	AMOUNT PAID		QUARTER	PURPOSE
	THIS PERIOD	FYTD	ENDING	
Fiscal Year to Date		15,317.58		FY2015
Herndon			12/31/2014	Investment management fees
<b>MANAGER TOTAL</b>	<b>-</b>	<b>15,317.58</b>		

**ACCOUNTS RECEIVABLE**

COMPANY	AMOUNT PAID		QUARTER	PURPOSE
	THIS PERIOD	FYTD	ENDING	
Prior quarter total				
<b>COMPANY TOTAL</b>				

**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal year to date		3,700,000.00		FY2014
<b>MISCELLANEOUS TOTAL</b>	<b>0.00</b>	<b>3,700,000.00</b>		

APPROVED:

  
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Chairman

  
\_\_\_\_\_  
Secretary