

## MEETING OF THE TRUSTEES

### CITY OF CHATTANOOGA GENERAL PENSION PLAN

May 28, 2020

This regularly scheduled meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on May 28, 2020 at 8:30 a.m. online via Zoom. Trustees present were Daisy Madison, Aon Miller, Katie Reinsmidt, and Jeffrey Wilson. Others in attendance at the meeting were Ed Koebel, Alisa Bennett and Jennifer Johnson, Cavanaugh Macdonald Consulting, LLC; Scott Arnwine and Robert Longfield, CBIZ, Inc.; Jed Cooper, First Horizon Bank; Valerie Malueg, Office of the City Attorney; and Beverly Moultrie, 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 present at the beginning of the meeting.

Because this is an online meeting, voting on any issue will be by roll call vote.

#### Approval of Minutes

*Katie Reinsmidt made a motion to approve the minutes from the February 20, 2020 meeting. Jeffrey Wilson seconded the motion. After a roll call vote, the minutes were approved as presented.*

#### Administrative Actions

Cheryl Powell presented the Administrative Actions for the current period. The retirement and termination transactions are consistent with typical past activity.

Transactions and liquidations for board to ratify include:

- DTC diversified partners sent a check in the amount of \$87,742.52
- four capital calls from GoldenTree Distressed Fund totaling \$1,610,000

Cheryl also pointed out that the OPEB Trust reallocation approved in February has not yet taken pace due to COVID-19 effects on the markets so there are no transactions to this effect listed in the OPEB summary.

*Aon Miller made a motion to approve administrative actions. Katie Reinsmidt seconded the motion. After a roll call vote, the administrative actions were approved as presented.*

Cheryl also provided the proposed budget for the fiscal year. The GPP valuation cost will be higher according to the contract while there will not be an OPEB valuation. Custodial costs are anticipated to be about the same in GPP but slightly higher in OPEB. Additionally, the costs for LTD premium will likely exceed the budget for the current fiscal year so the budget for this line is increased for the next fiscal year.

*Jeffrey Wilson made a motion to approve the budget for the next fiscal year. Katie Reinsmidt seconded the motion. After a roll call vote, the budget was approved.*

#### Actuarial Valuation presentation GPP – Ed Koebel, Jennifer Johnson – Cavanaugh Macdonald

Ed Koebel announced some changes at Cavanaugh Macdonald. Mr. Macdonald retired last September and in the change Alisa Bennett was named President of the company and Ed Koebel was named CEO. They will be continuing to serve as actuaries on our account.

Ed Koebel began the presentation with the following observations: active member count increased by 1.6%; active payroll increased 3.5%; the active (contributing) to retiree (receiving payment) ratio decreased from 1.18

to 1.17; total liabilities are \$437.9 million with \$247.7 million (or 56.6%) attributable to retirees; and the investment return for the calendar year was 15.8% or \$40 million as of 12/31/2019. The fund has sufficient assets to cover the liabilities for the current retirees. At the same time, a significant number of active employees are currently eligible for normal retirement as of January 2020. Additionally, he explained that the plan cash flows, measured as contributions coming in versus benefit payments and expenses going out, were negative 3.1% of assets, an acceptable level given the overall investment return. A negative 5% cash flow percentage would be worrisome for the plan.

Jennifer Johnson presented the key results for the valuation. The Unfunded Actuarial Accrued Liability decreased for the first time since 2014 and the Funded Ratio increased from 78.1% to 78.8%. The Actuarially Determined Employer Contribution rate declined from 21.42% to 21.26%. The 21.26% represents the 11.14% employer normal cost rate and the 10.12% unfunded accrued liability rate. The 21.26% rate translates to an expected \$13.9 million in contributions to the fund. Of the \$438.0 million total plan liability, the current fund assets and future anticipated contributions combined provide \$356.3 million of funding leaving an Unfunded Actuarial Accrued Liability of \$81.6 million. This amount is amortized to be paid as a level dollar amount into the GPP over a blended closed 25 year period.

Ed Koebel discussed the risks in the plan pertaining to the Investment risk. The Asset Volatility Ratio (AVR) for 2020 is 4.79. The AVR has ranged from 4.14 to 4.85 over the past 8 valuations. The AVR indicates the sensitivity to higher contribution rates should the plan experience investment losses. The higher the AVR, the greater the risk of higher contribution rates. That is, with a closed amortization period in this event, the contribution rate must be set higher to pay down the value of the investment losses. The five-year smoothing period may help to mitigate the effect of one year of loss.

Ed then presented the results of the projection assuming a 6.75% discount rate and the change in the active and retiree population based on the assumptions in the plan. Future contribution rates hover between 20 – 21% over the next 10 years. The investment gains of 2019 improve the projected contribution percentage and funding ratio as the gains will be reflected over the next four valuations.

Ed provided a value for the contribution rate of 22.85% assuming a 6.5% discount rate for City of Chattanooga budgetary considerations. Daisy Madison raised the question of reducing the discount rate from 6.75% to 6.5% at this time. There was several minutes of discussion regarding making the change; however, Robert Longfield and Scott Arnwine were fine with either the 6.75% or 6.5% rate while Ed Koebel recommended leaving the rate at 6.75%.

*Aon Miller made the motion to maintain the General Pension Plan discount rate at 6.75%. Jeffrey Wilson seconded the motion. After the roll call vote, the motion carried.*

*Katie Reinsmidt made the motion to accept the Annual Required Contribution rate of 21.26% of payroll for FY2021. Jeffrey Wilson seconded the motion. After the roll call vote, the motion carried.*

#### **Actuarial Valuation presentation OPEB – Alisa Bennett – Cavanaugh Macdonald**

Alisa Bennett began her presentation reminding everyone that the OPEB valuation occurs every two years instead of every year. The current discount rate for the OPEB plan is 7.0%. The population for the OPEB valuation includes the General Pension plan members as well as the sworn Fire and Police members. The resulting assumptions from the experience study for the General Pension Plan were incorporated into this OPEB valuation. The valuation includes market assumptions similar to those for the GPP but also includes medical price increases and medical inflation assumptions to determine the OPEB liabilities. The updated assumptions coupled with the healthcare trends generated a \$3.5 million decrease in the accrued liability for the OPEB Trust.

The market value of assets increased from \$60.6 million to \$81.0 million since the last OPEB valuation. The valuation method for OPEB uses market value for assets but does not use a smoothing method. Alisa mentioned that this could be discussion topic for the board members since a smoothing method serves to reduce volatility in the results.

The Funded ratio for the OPEB Trust is presently 40.8%, an increase over the 31.1% from the two years ago. The Actuarially Determined Employer Contribution rate is 11.44%, a decrease from the current rate of 13.58%. The amortization period for the OPEB Trust is a 30 year open amortization. The Board may wish to close the amortization period so that the assumption mimics the GPP. The Unfunded Actuarial Accrued Liability is \$117.3 million, an amount that is lower than the unfunded that would have been generated if experience over the last two years had been exactly as assumed. Factors that contributed to this reduction in the unfunded liability and the contribution rate are the following:

- changes in the assumptions based on the experience study and health care trend
- increase in assets and the consistent payment of employer contributions
- claims experience lower than assumption
- changes in the demographics of plan participation

A discount rate of 6.75%, the same level as the GPP rate, was applied to calculate an Unfunded Actuarial Accrued Liability of \$122.0 million and the alternative contribution rate of 11.75% for budgetary considerations.

Daisy Madison indicated that she would like to discuss a lower discount rate for the OPEB Trust and closing the amortization period for funding. Ed Koebel stated that 6.75% is a reasonable assumption relative to the average assumption across the country. Robert Longfield stated that the OPEB Trust is not invested in the same manner as the GPP because the investments can be more aggressive in the Trust for equities; however, there would be more comfort with the 6.75% rate.

*Jeffrey Wilson made the motion to change the discount rate assumption from 7.0% to 6.75% and to accept the Annual Required Contribution rate of 11.75%. Katie Reinsmidt seconded the motion. After a roll call vote, the motion was approved.*

*Jeffrey Wilson made the motion to change the amortization period for OPEB Trust to a 30 year closed amortization period. Katie Reinsmidt seconded the motion. After a roll call vote, the motion was approved.*

### **Investment Performance Review 1Q 2020 – CBIZ Investment Advisory Services**

Robert Longfield provided comments regarding the effect of the COVID-19 virus on the quarterly results and results after the quarter end. Essentially the virus created a self-induced 'time out' with resulting weak economic statistics with the slowdown. The peak results for the first quarter came around February 19<sup>th</sup> and by March 23<sup>rd</sup> the market was down 34%. The Federal Reserve and the US Treasury intervened to stabilize the fixed income market. Companies were not able to issue new debt and investors willing to sell bonds would experience large losses. With quantitative easing, the Federal Reserve would buy treasuries, government agencies and high investment grade corporate bonds (and potentially certain fallen angels) to bring liquidity back to the market and assist with recovery. The markets are rebounding but the way the recovery will happen is not certain and the markets are not yet back to where they were.

In the OPEB, the cash deployment did not take place; however this is a positive thing and the cash will ultimately be invested. With high unemployment rate and high number of unemployment claims, there is a wide range of possible economic outcomes. There is optimism for the future. On the other hand there is anticipated volatility as the economy begins to open up and uncertainty about the effects of COVID-19 around the world. The energy sector contributed to the volatility with tension between a slowdown in demand and an increase in oil production. Additionally, China and the trade agreement is coming back into the view of investors and may have an impact on the recovery. The GPP portfolio is more value tilted but growth stocks (for example, technology and health care) held up better in this crisis. Value stocks are just now beginning to rebound and outperform growth.

Scott Arnwine provided the overview of plan results for the quarter. At the end of 4Q, the GPP fund was \$316.7 million up 18.5% for the year. At the end of 1Q, the return for the GPP was down 13% with a fund of \$276.8 million. All results were negative except Johnson, who, as the top performing core fixed income manager, outperformed the benchmark mainly due to heavy investing in treasuries. Brandywine did not perform as well due to the rapid decline in the 30 year treasury rates and the volatile effect on the dollar and

currency exchange rates. Invesco, the international equity manager, performed satisfactorily relative to the benchmark as did domestic equity managers, except Kennedy Capital. REITS were especially hard hit and the hedge fund managers did not perform well in the crisis. Rent exposures in the real estate asset category may render somewhat disappointing results for the second quarter as well.

On a positive note, the GPP had regained some of the lost ground in April and to date in May. CBIZ IAS recommends replacing the iShares Russell 1000 Growth index with the Fidelity Large Cap Growth Index Fund. The expense ratio of the Fidelity fund is less (0.035% vs 0.19%) with a two day settlement rather than one day.

***Aon Miller made the motion to transfer the investment in the iShares Russell 1000 Growth index in the General Pension Plan to the Fidelity Large Cap Growth Index Fund. Katie Reinsmidt seconded the motion. After the roll call vote, the motion carried.***

The OPEB fund experienced a negative 13.8% return with the fund falling to \$71.7 million. The individual manager performance have a story similar to that for the GPP. However the fund was regaining ground during April and to date in May. Scott made the same recommendation for transferring iShares Russell 1000 Growth index to the Fidelity Large Cap Growth Index Fund in the OPEB Trust. He also recommended transferring the iShares Russell 2000 Index Fund to the Fidelity Small Cap Index Fund.

***Aon Miller made the motion to transfer the investment in the iShares Russell 1000 Growth index in the OPEB Trust to the Fidelity Large Cap Growth Index Fund and to transfer the iShares Russell 2000 Index in the OPEB Trust to the Fidelity Small Cap Index Fund. Katie Reinsmidt seconded the motion. After the roll call vote, the motion carried.***

Scott also made recommendations for the allocation of additional cash in OPEB. He recommended adding private debt manager GoldenTree Distressed Fund III to the OPEB Trust as it is being opened to existing investors with a close date in late June. HE recommends investing \$2 million from the OPEB cash into this fund. This fund had been added recently to the GPP. There was some discussion about the current economic effects on this fund and the investment level and results in the GPP.

***Jeffrey Wilson made the motion to allocate \$2 million from OPEB Trust cash to the GoldenTree Distressed III Fund Co-invest offering. Katie Reinsmidt seconded the motion. The motion carried.***

Additionally, he recommended allocating \$5 million of cash as \$2 million to Diamond Hill, \$1 million to the Fidelity Large Cap Growth Fund, \$1 million to the small cap core fund and \$1 million to Allianz Short Duration High Yield fund. These recommendations are being made to bring investments closer to the target allocations in the OPEB fund. With GoldenTree investment, this is a total allocation of \$7 million from OPEB cash.

***Aon Miller made the motion to allocate \$5 million from OPEB Trust cash as \$2 million to Diamond Hill, \$1 million to the Fidelity Large Cap Growth Fund, \$1 million to the Fidelity Small Cap Index Fund, and \$1 million to the Allianz Short Duration High Yield fund. Katie Reinsmidt seconded the motion. The motion carried.***

#### **Report from Counsel**

There was no report from counsel.

***Aon Miller made a motion to adjourn the meeting. Jeffrey Wilson seconded the motion. After a roll call vote, the motion carried.***

Daisy Madison adjourned the meeting.

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

Meeting of Trustees  
May 28, 2020

**PART I - PARTICIPANT SUMMARY**

**SUMMARY OF PENSION PLAN APPLICATIONS**

Name	Department	Type	Option	Monthly Amount	Effective Date	DROP	Notes
Allen, Robert III	Public Works	normal	no	\$833.40	3/1/2020		
Wilson, Leslie Lynn	General Government	normal	no	\$2,822.68	3/1/2020		
Jones, Charles E	Library	normal	no	\$443.32	4/1/2020		
Mathews, Marvin L	Police services	normal	A	\$598.47	4/1/2020		
Reisman, Keith J	City Attorney office	normal	B	1003.37	4/1/2020		
Viar, Danny L	Public Works	normal	B	\$803.68	4/1/2020		
Coleman, Marvin	Public Works	normal	no	850.67	5/1/2020		
Crabtree, Sarah	Library	normal	B	\$710.89	5/1/2020		
Land, Donald	Public Works	normal	no	\$247.37	5/1/2020		
Pack, Steve A	Public Works	Rule of 80	C	2256.50	5/1/2020		
Rowe, Patrick A	Transportation	Rule of 80	B	2119.66	5/1/2020		
Thompson, Charles N	Public Works	normal	no	870.83	5/1/2020		
Walker, Tana	YFD	normal	B	1617.45	5/1/2020		

Count	13	\$15,178.29	\$0.00
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**DEATH BENEFITS - DECEASED ACTIVE OR VESTED EMPLOYEES**

Name	Employee	Type	Option	Date of Death	Amount or Monthly Amount	Effective Date	Notes
Susan Phillips	Kenneth A Phillips	A	certain onl	4/29/2020	\$731.18	5/1/2020	
Karen Compton	Michael Compton	A	certain onl	5/2/2020	\$468.66	6/1/2020	

**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
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**DISABILITY BENEFIT REPORT**

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

<b>Return of contributions</b>		<b>\$23,203.99</b>	<b>19</b>		
NAME	Department	Employee Number	Refund Amount	Termination Date	Notes
Barnes, Hope	Human Services	65839	\$1,413.78	1/21/2020	automatic
Bland-Manlove, Arletha	ECD	79675	\$2,293.28	1/31/2020	automatic
Bowman, Christy L	ECD	84522	\$193.55	11/13/2019	automatic
Bridges, Kimberly	General Government	78695	\$2,584.77	2/6/2020	
Cook, Benjamin	Airport	na	\$590.18	1/18/2020	automatic
Cornelius, Lauren	Public Works	78551	\$3,313.97	4/10/2020	
Henderson, Robbi	Human Resources	85102	\$413.24	1/28/2020	automatic
Hoffman, Robert	Police services	83559	\$584.90	2/27/2020	
Jackson, Harold (Jr)	Public Works	78574	\$662.90	1/15/2020	automatic
Kaylor, Lindsey L	General Government	76402	\$5,045.25	12/14/2019	automatic
Kupyna, Paul	Public Works	85643	\$36.92	1/23/2020	automatic
Lewis, Christopher	Public Works	85122	\$205.86	1/17/2020	
Martin, Devin	Public Works	82496	\$82.42	1/31/2020	automatic
Matheson, Michael E	Public Works	82757	\$617.89	11/29/2019	automatic
McCain, William D	Airport	na	\$787.53	2/21/2020	
Navarro, Esai	Library	79321	\$1,784.76	2/17/2020	
Palisano, William A	Public Works	85583	\$34.12	12/13/2020	automatic
Smith, Darian D	Public Works	79657	\$1,948.07	11/29/2019	automatic
Walker, Lonnie	Public Works	83558	\$610.60	1/21/2020	automatic

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**Return of deceased retiree basis**

Name	RETIREE NAME	Date of Death	Refund Amount	Notes
Cynthia Torres	Jerome Burch	3/7/2020	\$3,337.90	post tax contributions

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID	Qtr Ending	PURPOSE
Current quarter	70,397.66	3/31/2020	
Fiscal Year to date	239,426.60		FY2020
<i>Budget</i>	<i>323,759.00</i>		<i>FY2020</i>
Same quarter last year	85,397.80	3/31/2019	
Prior Fiscal Year	213,513.88		FY2019
Cavanaugh Macdonald	14,487.00	3/31/2020	GPP valuation
Cavanaugh Macdonald	1,424.00	3/31/2020	GPP GASB 67 & 68
Cavanaugh Macdonald			Experience Study
Chattanooga Times Free Press	0.00	3/31/2020	Meeting ad
CBIZ IAS	25,000.00	3/31/2020	Investment consulting services
First Horizon Bank	29,486.66	3/31/2020	Administrative expense
City of Chattanooga services	0.00	3/31/2020	Administrative expense annual
<b>COMPANY TOTAL</b>	<b>70,397.66</b>		

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

COMPANY	AMOUNT PAID	Qtr Ending	PURPOSE
Current quarter	50,523.13	3/31/2020	
Fiscal Year to date	241,174.00		FY2020
Same quarter last year	89,190.84	3/31/2019	
Prior Fiscal Year	359,337.93		FY2019
Chartwell	8,090.96	3/31/2020	Investment management fees
Kennedy Capital Management	0.00	3/31/2020	Investment management fees
Patten & Patten	12,710.88	3/31/2020	Investment management fees
Sustainable Insights	6,579.62	3/31/2020	Investment management fees
Wedge Capital	23,141.67	3/31/2020	Investment management fees
<b>MANAGER TOTAL</b>	<b>50,523.13</b>		

**ACCOUNTS RECEIVABLE**

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Fiscal Year		\$504,681.32	FY2019
Fiscal Year to date		\$343,940.32	FY2020
Delta Venture Partners II, LP			distribution
DTC Diversified Partners III	\$87,742.52	2/20/2020	distribution
SEC vs Dollar General Corp			distribution
Northern Trust			class action litigation settlement
<b>COMPANY TOTAL</b>	<b>87,742.52</b>	<b>\$343,940.32</b>	

**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal Year		6,021,000.00		FY2019
Fiscal Year to Date		11,470,000.00		FY2020
Voya Floating Rate fund (IFRIX)				to pay benefits
Voya Floating Rate fund (IFRIX)				to pay benefits
GoldenTree Distressed Fund	200,000		3/23/2020	capital call
GoldenTree Distressed Fund	300,000		4/2/2020	capital call
GoldenTree Distressed Fund	480,000		4/10/2020	capital call
GoldenTree Distressed Fund	630,000		4/13/2020	capital call
<b>MISCELLANEOUS TOTAL</b>	<b>1,610,000.00</b>	<b>1,610,000.00</b>		

**REPORT OF ACCOUNT(S) PAID**

COMPANY	AMOUNT PAID		MONTH	PURPOSE
	THIS PERIOD	FYTD		
Prior Fiscal Year		128,068.78		FY2019
<i>Budget</i>		<i>130,000.00</i>		<i>FY2020</i>
Fiscal Year to date		112,553.64		FY2020
The Hartford	11,206.70		2/29/2020	Long Term Disability (50%)
The Hartford	11,204.74		3/31/2020	Long Term Disability (50%)
The Hartford	11,017.42		4/30/2020	Long Term Disability (50%)
The Hartford			5/31/2020	Long Term Disability (50%)
The Hartford			6/30/2020	Long Term Disability (50%)
<b>TOTAL</b>	<b>33,428.86</b>	<b>112,553.64</b>		



**CITY OF CHATTANOOGA OPEB TRUST  
ADMINISTRATIVE ACTIONS**

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID THIS PERIOD	Qtr Ending	PURPOSE
Current quarter	28,522.23	3/31/2020	
Fiscal Year to date	57,600.76		FY2020
<i>Budget</i>	<i>62,959.00</i>		<i>FY2020</i>
Same quarter last year	12,199.88	3/31/2019	
Prior Fiscal Year	37,562.61		FY2019
Cavanaugh Macdonald	14,356.00	3/31/2020	OPEB valuation
Cavanaugh Macdonald	3,879.00	3/31/2020	OPEB GASB 74/75
CBIZ IAS	5,000.00	3/31/2020	Investment consulting services
First Horizon Bank	5,287.23	3/31/2020	Administrative Expense
<b>COMPANY TOTAL</b>	<b>28,522.23</b>		

*Investment Managers -- Fees Paid*

COMPANY	AMOUNT PAID THIS PERIOD	QUARTER ENDING	PURPOSE
Fiscal Year prior			FY2019
Fiscal Year to Date			FY2020
<b>MANAGER TOTAL</b>	<b>-</b>		

**ACCOUNTS RECEIVABLE**

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

**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**


COMPANY	AMOUNT	EFF DATE	REASON
Fiscal year prior	3,274,110.20	FY2019	
Fiscal year to date	3,097,141.53	FY2020	

*Feb 20 approved reallocation of \$3 M from cash has not yet taken place*

<b>MISCELLANEOUS TOTAL</b>	<b>0.00</b>		
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APPROVED:

  
Chairman

  
Secretary