

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

**November 20, 2014**

The regular meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on November 20, 2014 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Steve Perry, Carl Levi, and Stacy Richardson. Others attending the meeting were Valerie Malueg, City Attorney's Office; Teresa Laney, First Tennessee Bank; Robert Longfield and Scott Arnwine, Gavion, LLC; Todd Dockery, Madeline Green 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**

***Carl Levi made a motion to approve the minutes of the August 21, 2014 meeting. Stacy Richardson seconded the motion. The minutes of the meeting were unanimously approved.***

**Administrative Actions**

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. Carl Levi seconded the motion. These administrative actions were unanimously approved by the Board.***

As a follow-up to the last meeting, Cheryl Powell presented a draft of a Board resolution to provide structure and clarity of roles for the administration of the LTD benefits provided by the City and the General Pension Plan.

***Carl Levi made the motion to approve the Resolution 2014-2 regarding administration of the LTD benefits. Steve Perry seconded the motion. The Resolution was unanimously approved by the Board.***

Cheryl Powell also reported that the cost of living adjustment for the Social Security benefits is 1.7% for 2015. The Board took no action to modify the codified 3% cost of living adjustment for the General Pension Plan benefits.

**Signatures for Documents**

This agenda item was moved since one of the members had to leave prior to the end of the meeting.

Time was set aside during the meeting for the Board members to sign recently adopted documents requiring signatures. The Statement of Investment Objectives required a signature from each Board member. For those not present, Cheryl Powell will contact the members and ask them to arrange a time to provide their signature.

The Amended and Restated Bylaws and the Resolution 2014-3 both require a signature from the Secretary Carl Levi.

Signed documents will be stored in hardcopy with the hardcopy of the minutes and stored electronically in Human Resources and the City Attorney's office.

### **Performance Review 3rd Quarter 2014 -- Gavion**

Robert Longfield prefaced his remarks by indicating that the losses experienced in our portfolio and shown on the 3<sup>rd</sup> quarter report were recovered early in the 4<sup>th</sup> quarter. In the US market, GDP has declined and there is hope for a strong retail season. Trends in the US and global markets are prompting the consideration of new asset classes for the General Pension Plan portfolio, similar to the additions to the OPEB portfolio, in order to improve the yield.

There is some optimism since our plan is performing well versus other defined benefit plans of a similar size although yields are behind the benchmarks. The year to date yields on the portfolio are not at the desired level particularly on the total equity. There is an advantage to the active management compared to taking an index approach; however some sectors did prove problematic within the portfolio. And on the international front, China will continue to exert influence on the markets, even though the pace of growth has slowed, due to its size.

Portfolio equity performance was in line with benchmarks for the quarter. Kennedy and The London Company with their defensive positioning performed better than the benchmark. Wedge and Insight lag more than other managers due to their management style. Herndon is struggling but has not been in the portfolio very long. The energy sector was particularly problematic during the quarter. Hedge funds struggled for the quarter although in line with the benchmark. The newly added Real Estate manager performed in line with the expectations and the Fixed Income portfolio overall result exceeded the benchmark due to the strength of Brandywine's performance. The value of the pension portfolio dropped to \$269 M this quarter however it is on the rebound during the fourth quarter. Robert Longfield will be conferencing with the private equity managers regarding the lifetime of the funds with inception dates over ten years old and the timing of liquidations from those portfolios.

Daisy Madison pointed out to the Board that under GASB 68, the General Pension Plan net position is disclosed on the City financial statement. There is no change to the valuation of the plan, just the disclosure of the financial results.

Robert Longfield prefaced the overview of the asset classes under consideration by saying that this review is similar to the recent modification made to the OPEB portfolio. Both of the classes reviewed today tend to be more variable than bonds; however, each is likely to provide low double digit returns and generate income to be reinvested. Both classes can aid in diversifying the equity risk for the pension portfolio because the returns are not dependent on the movement in the equity markets.

### **Overview of Private Debt – Gavion**

Robert Longfield and Scott Arnwine provided a presentation of the analysis and recommendations regarding Private Debt. The private debt managers under consideration generally consider the middle market loans that are not large enough for large banks to be interested. The main risk is in prepayment; thus, the focus will be on short term investments. The logic behind considering this class is to obtain yield over and above fixed income yields. The pension portfolio has a long term view of yield and inclusion of this class will provide opportunity to improve the yield in the short run relative to the underlying actuarial assumption without sacrificing long term potential. The short term focus will serve to mitigate the downside risk. Yields and repayments from these investments can later be reallocated depending on the conditions at that time. Because of the manner in which these managers are compensated, their goal is for higher yields than the preferred return threshold. The recommendation is to invest 5% of the portfolio or \$14 million in this class. The recommended allocation is \$12 million for General Pension and \$2 million for OPEB.

Nine different managers, identified in the presentation handout, were compared for the board consideration. Robert Longfield provided a brief overview of each. Funding will be through capital calls over a stated period of time and the fund term varies by manager. The managers recommended to interview are Medley and GoldenTree. Since there was not a quorum at this point, the board members present agreed that Gavion will invite the two recommended managers for interview at the February board meeting.

### **Overview of Private Real Estate (Value Add Real Estate) – Gavion**

Robert Longfield and Scott Arnwine provided a handout of the results of the research for Value Add Real Estate. This is not the same as a straight Real Estate investment. There are four strategies for achieving this goal: core, core plus, value add and opportunistic. With Value Add Real Estate, property is acquired at a discount, improved in order to add value, and then sold to other real estate investors to realize gains.

The logic behind this asset class is to generate cash income yield to offset equity income variability. An 'open end' fund will have income and outflow quarterly while not being a liquid investment. Income payment may be deferred up to a year if property needs to be sold to provide liquidity. Alternatively a 'closed end' fund will operate similar to private debt or private equity in terms of liquidity. The recommended managers to be interviewed include American Realty Investors (open end fund but diversified), Heitman (closed end), Stockbridge Capital Group (closed end), TerraCap Capital (closed end), and Intercontinental Real Estate Corporation (open end). Heitman and Stockbridge funds will close before the regular February meeting. The recommended investment in this asset class is approximately 8% of the fund or \$22 million to be distributed among the selected managers.

After some discussion, the board members present agreed that American Realty, TerraCap Capital and Intercontinental Real Estate should be invited for interviews. The board members present requested that Gavion invite the three recommended managers for interview at a future board meeting.

At this point, it was decided that the board will add a meeting in either January or April, with January preferred, to facilitate the conduct of interviews of the private real estate managers under consideration. Cheryl Powell will poll the members to determine the best dates to ensure enough members are present to hold a vote to select a manager. The regular board meeting on February 19, 2015 will also have time devoted to scheduled manager interviews for private debt.

### **Report from Counsel**

At the last meeting a draft of the Pension Plan Funding Policy was presented. This is a new requirement of the State of Tennessee to ensure that the pension plans are funding the promised benefits. This policy must have the review and approval of the State and City Council and will also be submitted to the current actuary for comment prior to board action. From the last meeting there were some issues to be explored and Daisy Madison said she is waiting on some feedback from the state. One issue regarding the timing of completion of the document is compliance with state law. The document will be redistributed and will be an agenda item for board action at the next regular board meeting.

In closing, Daisy Madison expressed her thanks for efforts to support the Board to Cheryl Powell, Valerie Malueg, and First Tennessee Bank.

The meeting was adjourned by Daisy Madison.

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

**Meeting of Trustees  
November 20, 2014**

**PART I - PARTICIPANT SUMMARY**

**SUMMARY OF PENSION PLAN APPLICATIONS**

Name	Department	Type	Option	Monthly Amount	Effective Date	DROP	Notes
Bass, David H	Public Works	Imm Early	A	\$658.72	11/1/2014		
Brewer, Dorothy	ECD	Imm Early	no	\$403.28	9/1/2014		
Commons, Allan R	Public Works	Normal	A	\$758.67	12/1/2014		
Corker, Robert P.	Mayor	Normal	no	\$1,273.64	9/1/2014		vested
Goduco, Preciosa	Finance	Normal	B	\$2,023.55	12/1/2014	\$69,114.46	
Lee, Maxwell	County 911	Imm Early	B	\$1,506.87	9/1/2014		
McGill, Ronald	Public Works	Normal	B	\$953.75	12/1/2014	\$31,036.07	
Scott, Roger N.	ECD	Imm Early	B	\$548.64	10/1/2014		
Stevens, Phillip G.	General Government	Imm Early	A	\$744.79	10/1/2014		
Williams, Patricia D.	Human Services	Normal	A	\$1,085.45	10/1/2014	\$52,142.13	
Wilson, Jehu J.	Public Works	Normal	B	\$1,002.88	9/1/2014		LTD

Count 11

**BENEFIT REVISIONS/CONVERSIONS - PENDING BOARD REVIEW/APPROVAL**

NAME	TYPE	Option	Previous amount approved	Revised amount	Effective date
------	------	--------	--------------------------	----------------	----------------

**SELECTION OF OPTIONAL BENEFIT REPORT - VESTED OR ATTAINED AGE 62 OR GREATER**

NAME	OPTION	Effective Date
Beverly Casey	B	9/30/2014

**DISABILITY BENEFIT REPORT**

NAME	TYPE	Employee Number	Monthly Benefit Amount	Effective Date	Notes
Watts, Derek	not job related	67169	\$1,962.50	8/9/2014	
Matthews, Joseph K.	not job related	68445	\$2,379.92	8/13/2014	

**LUMP SUM DISTRIBUTIONS (FOR RATIFICATION - CHECKS PROCESSED)**

**Return of contributions**

NAME	Department	Employee Number	Refund Amount	Termination Date	Notes
Biss, Tyler	Public Works	71649	\$634.91	8/7/2014	
Broadnax, Jessica	Library	71444	\$406.00	8/1/2014	
Bullock, Tracie	General Govt	66138	\$5,462.32	7/11/2014	automatic
Campbell, Luther L.	Public Works	63908	\$2,376.51	8/18/2014	
Daniel, Brian	Public Works	69649	\$1,020.96	6/14/2014	automatic
Davidson, Barbara	Human Services	60018	\$7,457.61	5/30/2014	vested
Davies, Angela M.	Human Services	65938	\$1,778.61	8/6/2014	
Evans, Robert	Public Works	72355	\$337.07	8/15/2014	
Johnson, Vincent	YFD	64176	\$1,532.87	7/31/2014	
Jones, Troy V.	Public Works	66976	\$1,820.68	8/21/2014	
McManus, Kathleen	Library	55208	\$9,839.40	8/11/2011	vested
Perez, Patricia	Human Resources	68171	\$1,832.69	10/23/2014	
Schuler, Christopher	Public Works	68529	\$1,886.62	8/7/2014	
Senich, Corey	Public Works	68484	\$1,805.89	7/24/2014	
Slye, Lori	Parks & Rec	62377	\$4,491.29	8/9/2012	vested
Smith, Brian M.	YFD	67787	\$555.12	6/27/2014	automatic
Spurlock, Melvin	Public Works	61057	\$5,772.27	4/4/2013	LTD term.
Stauffer, Robert	Public Works	71588	\$643.37	7/28/2014	
Walker, Sarah K.	ECD	68812	\$1,522.26	5/22/2014	transfer
Whaley, Shneka	YFD	66766	\$2,188.77	9/25/2014	
Wright, Ethan	General Services	69647	\$1,047.64	7/2/2014	automatic

**Return of deceased retiree basis**

Name	RETIREE NAME	Date of Death	Refund Amount	Notes
------	--------------	---------------	---------------	-------

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		283,195.22		FY2014
Fiscal Year to Date		64,387.87		FY2015
Cavanaugh Macdonald	9,874.00		9/30/2014	Funding policy and disclosures
City of Chattanooga HR	71.91		9/30/2014	GPP participant report distribution
Chattanooga Times Free Press	40.80		9/30/2014	Meeting ad 8/14/2014
Gavion, LLC	25,000.00		9/30/2014	Investment consulting services
First Tennessee Bank	29,401.16		9/30/2014	Administrative expense
<b>COMPANY TOTAL</b>	<b>64,387.87</b>	<b>128,775.74</b>		

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

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	YTD		
Fiscal Year to date - prior quarter		530,877.44		FY2014
Fiscal Year to date -current quarter		48,715.05		FY2014
Fiscal Year to date -current quarter		152,908.76		FY2015
Herndon	48,715.05		3/31/2014	Investment management fees
Herndon	51,164.89		9/30/2014	Investment management fees Investment management fees
Insight	20,124.42		9/30/2014	Investment management fees
Kennedy Capital Management	14,864.00		9/30/2014	Investment management fees
Chartwell	7,219.66		9/30/2014	Investment management fees
Wedge Capital	33,014.35		9/30/2014	Investment management fees
The London Company	15,074.88		9/30/2014	Investment management fees
SMH Capital Advisors	36.84		9/30/2014	Investment management fees
Patten & Patten	11,409.72		9/30/2014	Investment management fees
<b>MANAGER TOTAL</b>	<b>201,623.81</b>	<b>201,623.81</b>		

**ACCOUNTS RECEIVABLE**

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Prior quarter total			

---

**COMPANY TOTAL**

---

**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal Year to Date		37,313,954.00		FY2014
Fiscal Year to Date		1,400,000.00		FY2015
Prudential	900,000		9/26/2014	transfer to pay benefits
Prudential	1,100,000		10/27/2014	transfer to pay benefits

---

**MISCELLANEOUS TOTAL**      **2,000,000.00**      **3,400,000.00**

---

**REPORT OF ACCOUNT(S) PAID**

COMPANY	AMOUNT PAID		QUARTER	PURPOSE
	THIS PERIOD	FYTD	ENDING	
Fiscal Year to date		147,916.13		FY2014
Fiscal Year to date		15,193.66		FY2015
ING	15,112.01		8/31/2014	Long Term Disability (50%)
ING	15,295.71		9/30/2014	Long Term Disability (50%)
ING	15,194.19		10/31/2014	Long Term Disability (50%)

---

**TOTAL**      **45,601.91**      **60,795.57**

---

**CITY OF CHATTANOOGA OPEB TRUST  
ADMINISTRATIVE ACTIONS**

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to date		\$12,262.19		FY2014
Prior quarter total		\$4,456.26		FY2015
First Tennessee	4,456.26		9/30/2014	Administrative Expense
<b>COMPANY TOTAL</b>	<b>4,456.26</b>	<b>\$8,912.52</b>		

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

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		15,104.82		FY2014
Fiscal Year to Date		15,317.58		FY2015
Herndon	15,104.82		6/30/2014	Investment management fees
Herndon	15,317.58		9/30/2014	Investment management fees
<b>MANAGER TOTAL</b>	<b>30,422.40</b>	<b>30,422.40</b>		

**ACCOUNTS RECEIVABLE**


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

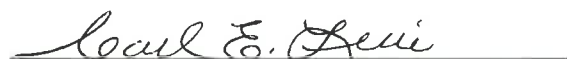
**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

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:

  
Chairman

  
Secretary