MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

February 16, 2006

The regular meeting of the City of Chattanooga General Pension Plan was held February 16, 2005 at 8:45 a.m. in the City of Chattanooga J.B. Collins Conference Room. Trustees present were David Eichenthal, Carl Levi, BettyeLynn Smith, Daisy Madison, Dan Johnson and Corrine Allen. Others attending the meeting were Doug Kelley, City Personnel Office; Sharon Rogers, City Personnel Office; Vicki Corson, City Finance Department; Mike McMahan, Nelson, McMahan & Noblett; Pat Cox, Consulting Services Group; Scott Arnwine, Consulting Services Group; and Teresa Hicks of First Tennessee.

The meeting was called to order by Chairman David Eichenthal. A quorum was present.

The minutes of the meeting held December 15, 2005 were approved.

Upon a motion duly passed, the following pension benefits and plan expenses were approved:

ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAYABLE	SERVICES RENDERED
AEG CAPITAL MANAGEMENT	$2,000.00	Retainer for securities consulting and expert witness work
	$4,679.00	Consulting services
ARC ANALYTICS	$10,000.00	Retainer-additional work performed on Paine Webber litigation
CONSULTING SERVICES GROUP	$16,750.75	Professional services for quarter ending September 30, 2005
	$16,750.75	Professional services for quarter ending December 31, 2005
FIRST TENNESSEE	$26,007.11	Custody and benefit payment services for quarter ending September 30, 2005
INNOVEST PORTFOLIO SOLUTIONS	$14,287.50	Professional services (litigation)
NELSON, MCMAHAN & NOBLETT	$1,590.00	Professional services for period November 1, 2005 to January 9, 2006
	$885.00	Professional services for period November 1, 2005 to January 16, 2006 (Paine Webber litigation)
INVESTMENT MANAGERS		
ARK ASSET MANAGEMENT	$26,774.00	Investment management fee for quarter ending December 31, 2005
BRANDYWINE ASSET MANAGEMENT	$11,199.53	Investment management fee for quarter ending December 31, 2005

INSIGHT	$14,463.97	Investment management fee for quarter ending December 31, 2005
NWQ INVESTMENT MANAGEMENT	$26,853.19	Investment management fee for quarter ending September 30, 2005
	$27,381.89	Investment management fee for quarter ending December 31, 2005
PATTEN & PATTEN, INC.	$9,097.56	Investment management fee for quarter ending December 31, 2005
SMH CAPITAL ADVISORS	$8,360.16	Investment management fee for quarter ending December 31, 2005
THE NORTHERN TRUST COMPANY	$4,295.87	Investment management fee for the quarter ending December 31, 2005
THORNBURG INVESTMENT	$39,414.79	Investment management fee for the quarter ending December 31, 2005
	$167,840.96	Total

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	PURPOSE

No activity

REPORT OF ACCOUNT (S) PAID

HARTFORD LIFE AND ACCIDENT INSURANCE CO. (Long-Term Disability)	$12,569.43	Premium January 2006
	$12,496.68	Premium February 2006

MISCELLANEOUS ITEMS

NAME	TRANSACTION

No activity

Election of Officers

Before the nomination and election of officers began, Chairman Eichenthal noted the resignation of Larry Bentley as Vice Chair. Nominations for Office of Chair were opened. Corrine Allen nominated David Eichenthal for the position and hearing no other nominations, the nominations were closed. The board unanimously elected David Eichenthal to Office of Chair.

Nominations for Office of Vice Chair were opened. Dan Johnson nominated Daisy Madison for the position and hearing no other nominations, the nominations were closed. The board unanimously elected Daisy Madison to Office of Vice Chair.

Nominations for Secretary were opened. Corrine Allen nominated Carl Levi for the position and hearing no other nominations, the nominations were closed. The board unanimously elected Carl Levi as Secretary.

Three HD Presentation

Mike Hardy from Three HD returned to present the pension plan website changes suggested by the board members in December. The City of Chattanooga logo was added to the website along with images of Chattanooga. The website was also updated with necessary forms and contact information, the board member biographies, and a link to the City of Chattanooga's main website. Mr. Hardy informed the board that Three HD was ready to launch the live website if the board members were satisfied with the product. Three HD will provide training on how to add and delete data from the website.

The board members found the changes agreeable and consented to the launch of the website since other reports could be added as needed. The final step is to send notification to the retirees.

Delta Ventures Partners II, LP Manager Review

David Lantham from Delta Capital Management, LLC presented a review of Delta Venture Partners II, LP. Delta Venture is a $16 million fund that closed in 2002 and has drawn about 80% of the committed funds. Delta invests primarily in the healthcare, technology, and software industries within the Southeastern United States. Currently, Delta has five investments in Tennessee, one investment in Mississippi, one investment in Arkansas, and two investments in Texas. Delta would like to invest in ten companies and has a goal to complete the final investment by June or July. Delta focuses on three different stages of investments - start-up (company does not have revenue), early (company has revenue but no profit) and late (company has revenue and profit).

Mr. Lantham explained the pricing of assets. Delta uses the Private Equity Industry Group Guidelines to value its holdings. The guidelines were created by fund managers and investors. The guidelines state investments should remain at cost unless the business has materially deteriorated or there has been new equity financing. Also, write-ups should generally occur only after a new equity investment by new investors. The appropriate illiquidity discount should be used for restricted public stocks. Finally, when a company has achieved maintainable cash flow, the company can be written up based on industry multiples discounted appropriately for illiquidity.

Mr. Lantham opened up the floor for questions. Ms. Madison asked what would lead to a write down. Mr. Lantham responded that if the performance of the company had deteriorated or if the company had a subsequent round offering at a lower price.

Chairman Eihenthal then questioned the decreased value of Advent Networks, Inc. Mr. Lantham responded that Advent Networks is a company located in Austin, Texas. Advent has improved the speed of internet service. Delta invested in Advent along with Murphy Investor and Union Pacific. Under the terms of the agreement between Advent and Union Pacific, Union Pacific would be required to convert debt to equity. Union Pacific was not agreeable to the terms. As a result, Advent did not get funds to keep going. Ms. Allen asked why Advent was not given a zero value. Mr. Lantham answered that there are funds in Advent that will be distributed. Advent has filed for bankruptcy. In addition, the technology itself still has value but would have to be sold at $8 million to receive money back. Also, another potential source of money could come from a pending lawsuit filed by Advent against a company infringing on the patent.

Mr. Cox questioned if Delta knew its co-investors. Mr. Lantham confirmed that Delta does know its co-investors and are hard pressed to invest in a company without a co-investor. Mr. Cox also inquired about the investment in Med Shred (now MedServe). Delta invested $1,614,500 in MedServe which is a mobile processor of medical waste eliminating the cost and liability of transportation. The investment is now worth more than the original investment but the guidelines do not allow a markup.

FCA Venture II and FCA Venture III Manager Review

Stuart McWhorter, Matt King, Chris Kyriopoulos, Gary Cordell, and Richard Rodgers from Clayton Associates presented the review of FCA II and FCA III. Clayton Associates is a ten year old firm based in Franklin, Tennessee and is the fund manager for FCA II and FCA III.

FCA II, the latest fully invested fund for Clayton Associates, was in the top quartile of all 1998 vintage U.S. funds. The pension plan has contributed a total of $5,000,000 to FCA II and has received $8,259,421in distributions to date. FCA II does not have a lot of companies left in the portfolio. The remaining companies are still in business and FCA II will distribute the money to investors as the investment is liquidated from the companies. FCA II does not distribute stock to its investors.

FCA III opened in 2001 and closed in 2003. The fund is too young to judge performance but it is tracking well. The pension plan has contributed $4,800,000. FCA III leveraged capital raised with the Small Business Investment Corporation. For every dollar raised in private capital, FCA III would get two dollars from the SBA. FCA III currently has thirteen investments and two to three additional investments will be made.

FCA III's strategy is to invest in early investment companies. An example is Ardent Health Services which is an urban hospital management company based in Nashville, Tennessee. Ardent Health Services buys and consolidates urban hospitals. FCA III has invested $4 million into the company and the company has raised over $100 million. Clayton Associates is very pleased with the performance. Ardent Health Services will not go public but will instead sell to a larger company or it could be broken up and sold into four or five pieces. Clayton Associates hope to see signs of Ardent Health Services doing a deal this year.

Another investment of FCA III is Extensiva which is located in Hendersonville, Tennessee. This is a medical services company offering business office solutions for hospitals. The existing shareholders were bought out and a new management team was put in place. Financial issues arose after the closing. An employee had been advised to inflate the numbers and the local accounting firm auditing the company did not catch it. Those who omitted the fraud have admitted to it. The case is going through mediation. FCA III would like to see their capital returned through settlement.

Mr. Cox questioned Clayton Associates about their real estate exposure. Clayton Associates has ten percent of their total funds invested in real estate. Clayton Associates looks to mirror their past since it has been successful. Thirty to thirty-five percent of their investments are in non-healthcare services. One half of their investments are in healthcare or healthcare services.

Clayton Associates asked the board to consider an investment in FCA IV. This new fund will focus on early stage growth capital weighted in healthcare with select real estate investments. The funds target size is $50 million and to date $20 million has been committed. The general partner and its affiliates have committed $16 million. FCA IV will focus its investments in the Southeastern United States and will continue to invest in healthcare delivery, services and technology, diversified services and real estate.

Ms. Madison asked why Clayton Associates would add a fund. Clayton Associates sets each fund with a target size. Currently, Clayton Associates has $50 million invested in thirteen countries with a reserve for follow-ons. The FCA funds have a ten year life. The invested money is being put to work in years one through three. During years four through ten, the investments are being sold and distributed to the investors.

<u>Performance Results</u>

Pat Cox and Scott Arnwine from Consulting Services Group performed the quarterly performance review of the board. Overall, CSG was please with the performance during 2005. The portfolio did well considering it was a tough year to add value. CSG reported one violation to the pension fund's asset allocation. The fixed income portion of the allocation is currently 23.9% which is below the minimum target allocation of 25.0%. No other violations were found.

The pension fund's trailing one year was 8.1% as of December 31, 2005. The fund had a nice outperformance versus the passive approach which was at 4.8%. The passive approach consists of applicable indexes in the exact allocation as the investment plan. The large cap equity managers outperformed across all trailing time periods. Thornburg, the international investment manager, outperformed its benchmark by 2.5% over the last year. The small cap equity managers had a trailing one year of 15.4% compared to its benchmark of 4.6%. The fixed income managers outperformed their benchmark, Lehman Brothers Aggregate Bond Index, by about 20 basis points. The addition of high yield bonds and global bonds helped.

CSG is continuing to add to the real estate portion of the allocation as previously approved by the board. Since inception the real estate investment is up 4%. The strategy of being patient on entering the market is proving successful. CSG anticipates additional funding to occur during the month of February.

The majority of the equity mangers did a great job last year. Six out of seven equity managers have outperformed their benchmark last year and are in the top 25% of their peer groups. All of the equity managers did outperform their benchmark over the last five years. Flippin, Bruce & Porter was the only underperformer but has since been eliminated. Insight, the most volatile equity manager, produced a trailing one year return of 33.1% compared to its benchmark which returned 4.2%.

The two high yield managers provide a balance to each other. SEIX has a conservative approach and SMH is more aggressive. SMH had a trailing one year return of 13.6% compared to its index of 2.8%. SEIX had a trailing one year return of 2.6% compared to its index of 3.1%. CSG is not very concerned with SEIX's performance because they feel as the cycle wears on SEIX will outperform. SEIX is still adding value. The two Northern Trust fixed income funds were in line with their index and are performing as expected. Brandywine global fixed income fund had a tough year. Brandywine was down 30 basis points as of December 31, 2005. Overall bonds were up 70 basis points.

CSG introduced the idea of modestly adjusting the asset allocation. The fixed income allocation is currently set at 25%. Since there is not a lot of opportunity in the bond market, CSG suggested modestly reducing the minimum to 20%. If the fixed income exposure is reduced then it would be recommended to increase the hedge fund exposure two to three percent. More opportunity exists in the hedge fund market.

Ms. Madison commented that CSG had been with the pension plan for almost three years. During that time they have added value to the plan by looking at the asset allocation and investment policy. The pension plan has moved from a high rate of equity to a more diversified plan. Ms. Madison questioned how to evaluate CSG. Mr. Cox responded that the valuation would be more qualitative than quantitative. CSG should be evaluated on the fact that they are proactive, have good manager recommendations for the board, and help the board work through issues.

Ms. Madison skeptical to say no to the asset allocation recommendation in order to hold CSG to their performance standard. Mr. Eichenthal questioned how the fixed income slipped to 23.9%. Mr. Cox responded that it was just a function of the market. Mr. Eichenthal is concerned about changing the allocation since it would mean a policy change but at the same time is relying upon the judgment of CSG. Mr. Eichenthal further pointed out that the board spent a long time determining the asset allocation so he is hesitant to consent to a change at this time.

Mr. Cox pointed out that regardless if the allocation changed or not, a lot of risk will not be introduced to the portfolio. Mr. Cox further pointed out that the bond market is not offering a lot of opportunity at this time. Mr. Eichenthal determined the board should take the recommendation under advisement but would not act upon it today. The issue could be revisited in March or April when there is a lighter agenda and more time to focus on it.

CSG concluded by informing the board that it would be a good time to continue funding the real estate allocation. CSG would like to move more funding into Duff & Phelps and will also need to raise money for the benefit payments. CSG recommends taking $1,000,000 from the Northern Trust large value fund to further fund the real estate investments and $1,000,000 from Thomson Horstmann & Bryant to pay for the pension benefits. A motion was made to accept the recommendation and the motion was unanimously passed.

<u>Custodian RFP</u>

The custodian RFP will be mailed out this week.

<u>Counsel Report</u>

Mr. Nelson conducted an attorney-client privileged conversation with the board members.

The next board meeting is scheduled for Thursday, March 16, 2006 at 8:45 a.m.

There being no further business, the meeting was adjourned.

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Chairman

APPROVED:

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Secretary