MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

November 16, 2006

The regular meeting of the City of Chattanooga General Pension Plan was held November 16, 2006 at 8:45 a.m. at the J.B. Collins Conference Room. Trustees present were David Eichenthal, Daisy Madison, BettyLynn Smith, and Dan Johnson. Others attending the meeting were Doug Kelley, City Personnel Office; Sharon Lea, City Personnel Office; Michael McMahan, Nelson, McMahan & Noblett; Pat Cox, Consulting Services Group; Robert Longfield, Consulting Services Group; and Teresa Hicks, First Tennessee Bank.

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

The minutes of the meeting held October 19, 2006 were approved.

ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAYABLE	SERVICES RENDERED
INVESTMENT MANAGERS		
ARK ASSET MANAGEMENT	$26,354.00	Investment management fee for quarter ending September 30, 2006
DUFF & PHELPS INVESTMENT	$22,737.00	Investment management fee for quarter ending September 30, 2006
INSIGHT	$15,254.50	Investment management fee for quarter ending September 30, 2006
	$64,345.50	TOTAL

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	PURPOSE
ADORNO and YOSS	$909.42	Balance of settlement in Paine Webber - Morgan Stanley Dean Witter settlement

REPORT OF ACCOUNT (S) PAID

HARTFORD LIFE AND ACCIDENT INSURANCE CO. (Long-Term Disability)	$12,599.99	Premium November 2006

MISCELLANEOUS ITEMS

NAME	TRANSACTION

No activity

OPEB Discussion – Update from Mike McMahan

Mr. McMahan gave a brief overview to the Board of the Pension/OPEB conference he attended last week in Chicago. He said that our pension plan was being operated quite well compared to the recommendations given at the conference. There are two areas where the General Pension Plan may be outside the recommendations of the conference presenters. One area deals with alternative investments specifically including hedge funds, fund-of-funds, and venture capital funds. The concern raised about hedge funds are that at one time there were very few hedge funds and they were making very high returns. Now there are far more hedge funds seeking the same investment opportunities and it much more difficult for a hedge fund to make those historically high returns. Fees are very high for hedge funds and there are two layers of fees for fund-of-funds, which raises a concern about excessive administrative fees. The lack of transparency as to the underlying investments of hedge funds and venture capital funds is also an issue that may be of concern to governments.

A recommended practice that we are not following is having completed our administrative manual. There have been fits and starts of trying to develop a manual, but one has never been completed. An administrative manual of the type recommended is a written policy of the everyday work of the plan so that the activities can be carried on by a new person should one of our plan administrators become incapacitated or leave employment. Mr. Eichenthal commented that this should be a project for next year.

All in all, Mr. McMahan stated that from what he gathered at the conference that the General Pension Plan was a very well operated and managed fund. Also, our plan has much less unfunded vested liability than is common for most governments have.

He said the conference leaders did not recommend issuing OPEB taxable bonds.

Discussion of Education Seminar

Mr. Eichenthal discussed the possibility of conducting a strategic planning process instead of an education seminar. He discussed two concerns. First, an election occurs in January for a Board Chairman, and it should be a new Chair. Secondly, any education seminar or planning process should wait until Board vacancies are filled. Mr. Eichenthal suggested that he needed a sense from Mr. Johnson and Ms. Madison about what to do. We should begin taking steps and pulling together an RFP for the strategic planning process if it makes sense to the Board. Mr. Johnson stated that we should have the seminar in the winter and that hopefully we would have the Board full by that time. Ms. Madison hoped to have at least two more trustees on board at the time we go forward with a strategic planning process. Mr. Eichenthal stated that the Board should go forward in February when it is full. He stated that we would draft an RFP for Board consideration in December.

Performance Update - CSG

Robert Longfield, from CSG, gave a few comments to the Board on the third quarter performance. Oil prices have come down, the FED has continued to pause, and Gross Domestic Product has slowed due to the housing slowdown of over a 1% reduction. Mr. Longfield stated that he has seen changes in leadership in material and energy stocks, healthcare, and technology in the IT market. He has seen a lot of managers relative to their indexes struggle with the relatively narrow market, causing the large cap stocks to show the most movement. The Plan has benefited with index exposure in the large cap value area. He stated that the trend for the dollar will be a decline. It is likely at some point OPEC will want oil paid in some currency other than the dollar, Mr. Longfield explained hypothetically. Foreigners continue to have significant investments in U.S. treasury bonds with the largest holders being China and Japan central banks. At some point China will allow their currency to appreciate and this will be a negative for the dollar. Across the board, fixed income provided positive performance for the quarter with shorter-term durations underperforming longer-term duration investments. CSG favors large cap relative to small cap in the current market and the fixed income allocation is back at slightly over 25%.

Pat Cox, from CSG, gave a few comments on Mr. Longfield's discussion before moving forward. The static asset allocation is 55% S & P, 10% EAFE, and 35% Bond. He stated that you can see the fund performance actually outperforming that static mix, so the asset allocation is working in our favor over the static index.

Mr. Cox described how the large cap outperformed the small cap managers. He stated that we have been trimming our small cap exposure and using it as a source of funds for benefit payments and rebalancing to the minimum fixed income allocation of 25%. Value outperformed growth overall as energy and materials have done well for the Northern Trust and NWQ investments. With more technology exposure, Ark has performed above the median with the Christmas season. Patten & Patten have had a lot of success in materials and energy. They have slightly underperformed for the quarter, but the year-to-date return is in the top 5% of the universe. Insight struggled for the quarter, but outperformed year-to-date in the top 25% of their peer group. THB struggled for the quarter due to materials and energy cooling off in the last couple of quarters. The long-term numbers are still in the top 25% for their universe. Thornburg, our international manager, benefited from emerging markets exposure and their tilt toward value investing. The short-term and long-term performance has exceeded their benchmark.

Under private equity investments, FCA Partners II has returned 17.4% since January of 1999. Under the hedge fund portfolio, Pointer has shown a nice rebound from the second quarter, approaching 3.3% for the quarter. Pointer is up about 7.8% since inception. The S & P over that same time period in the portfolio has also returned about 7%. Mr. Cox pointed out that we have equity market-type of returns with only a third of the S & P 500 volatility. Ironwood struggled for the quarter, but is still up over 6% for the year. The longer term numbers are even higher; 7.7% for the year and 8.1% since inception. These allocations have provided returns that are above the actuarial rate of return, and have also brought lower volatility strategies and correlations to the rest of the portfolio. Mr. Longfield gave a brief description of the fees involved and that the numbers reported in the allocations are net of fees. The hedge funds are up 7.7% in the last period while the bond market is up only 3.7%. The star of the total was the REIT portfolio. The overall equity REIT universe is close to 150 stocks and almost 10% of the universe has gone or has announced merger activity just this year. The fixed income portfolio had a strong quarter showing with core bonds and SEIX high yield up over 3.0%. SEIX outperformed SMH for the quarter. Brandywine global bonds were up 2% for the quarter, and up over 5.0% year-to-date through September. The asset allocation has continued to do very well in the fixed income portfolio, landing the total fixed income portfolio in the top 5% of the universe.

Mr. Eichenthal questioned the consultant, CSG, which manager should be discussed in the next quarter. Mr. Cox recommended discussing one of the three active large cap managers in February, particularly Ark Asset. The Board agreed.

The next board meeting is scheduled for Thursday, December 21, 2006.

There being no further business, the meeting was adjourned.

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Chairman

APPROVED:

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Secretary