MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

April 30, 2009

The regular meeting of the City of Chattanooga General Pension Plan was held April 30, 2009 at 8:45 a.m. in the J.B. Collins Conference Room. Trustees present were Daisy Madison, Bettye Lynn Smith, Dan Johnson, and Terry Lamb. Others attending the meeting were Graham Schmidt, EFI Actuaries; Gregory Stump, EFI Actuaries; Pat Cox, Consulting Services Group; Scott Arnwine, Consulting Services Group; Michael McMahan, City Attorney's Office; Valerie Malueg, City Attorney's Office; Jeff Claxton, City Benefits Office; Sharon Lea, City Personnel Office; Donna Kelley, City Personnel Office; Doug Kelley, City Personnel Office; Teresa Hicks, First Tennessee Bank; and Todd Gardenhire, SmithBarney. City Council members attending the meeting were Carol Berz, Pam Ladd, Andre McGrary, and Debra Scott.

The meeting was called to order by Chairwoman Daisy Madison. A quorum was obtained upon Ms. Smith's arrival.

The minutes of the meeting held March 5, 2009 were approved upon Ms. Smith's ratification.

The following pension benefits and plan expenses were discussed for approval:

PART I – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAYABLE THIS PERIOD	YTD	SERVICES RENDERED
BELL III, WILLIAM	$798.40	$798.40	Reimbursement for taxi, airfare, and parking expenses associated with Trustee Educational Seminar
CHATTANOOGAN	$1,466.34	$1,710.09	Trustee Educational Seminar expense
CONSULTING SERVICES GROUP	$17,129.75	$66,035.00	Professional services for period ending March 31, 2009
INVESTMENT MANAGERS			
ATALANTA SOSNOFF	$24,788.00	$88,030.00	Investment management expense for period ending March 31, 2009
MANAGER TOTAL	$24,788.00	$88,030.00	

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED THIS PERIOD	YTD	PURPOSE
No Activity			

REPORT OF ACCOUNT (S) PAID

MUTUAL OF OMAHA (Long-Term Disability)	$18,842.65 $95,739.27 Long Term Disability (50%) – Feb. & Mar. 09'

MISCELLANEOUS ITEMS

NAME	TRANSACTION
No Activity	

Actuarial Presentation – January 1, 2009 – EFI Actuaries

Mr. Schmidt stated that preliminary results would be discussed in this meeting due to the fact that they were still in the midst of an experience study. This is done every few years to determine if the current assumptions being used are still good ones. There are generally small changes, which can change the numbers in the report being discussed today. He stated that they looked at the cost of the Plan based on the asset values and the population of the Plan as of January 1, 2009 and determined the costs under the current assumptions.

He stated that as part of the valuation, their goal is to help the City budget the inflows and outflows as best as they can (try to keep the contribution by the employer level as a percentage of payroll). The Entry Age Funding Method is used to accumulate enough money during an active employee's career at a level percentage of each person's pay during their career. He then discussed the Actuarial Value of Assets (smoothed value) in which gains and losses are gradually recognized. 20% of gains or losses are recognized above or below the assumed rate of return (7.75%) in any given year. The rest of the gains or losses are gradually recognized over a five year period. This allows for the contribution rate to be smoothed for budgeting purposes. The limit for smoothing is 20% above or below the market value of assets.

He then discussed the preliminary results for the valuation. Accrued Liability (AL) went from $231.8 M for 1/1/2008 to $247.7 M for 1/1/2009. Actuarial Value of Assets (AVA) went from $241.2 M for 1/1/2008 to $203.1 M for 1/1/2009. This was mainly due to the large amount of investment losses. The funding ratio of 104% for 1/1/2008 dropped to 82% for 1/1/2009. He stated that this ratio was still above the average for public sector pension plans. For 2009, the Plan now has an unfunded liability of $44.6 M, and the payment towards this is $3.7 M. The Normal Cost (cost of the benefits being earned this year) for 2009 is increased slightly to $4.5 M. The Percentage of Pay increased from 6.31% for 1/1/2008 to 13.75% for 1/1/2009 (dependent on results of experience study).

The increase in costs resulted mainly from investment experience. Other factors included salary experience, impact of new members, demographic experience, and assumption changes (experience study currently in progress).

Investment Manager Presentations

Mr. Cox stated that the Plan was reallocating money from a core fixed income index fund to an active investment grade fund of funds due to an opportunity that exists. Due to the stress in the credit market, there is an opportunity to get better returns out of the investment grade corporate credit market versus being in just treasuries and mortgages. CSG performed a screening process to bring in two managers for presentations. They were PIMCO and Prudential. Both managers have long term histories in the investment grade core strategy.

PIMCO – Tim Wyatt, Jeff Neal

PIMCO was founded in 1971 as a specialty fixed income manager and currently has $755.9 B of assets under management. They have a goal of consistently outperforming with benchmark-like risk and have a conservative philosophy with long-term orientation. They participate nationally in the marketplace, have broad access to companies, and invest in their employees. The investment grade corporate bond fund was started in April of 2000 and has a top-down investment process. As of December 31, 2008 there was a total of $19.2 B in Investment Grade Assets under management. Mr. Wyatt also stated that PIMCO relies on there own credit research analysts to perform their ratings rather than rating agencies.

Mr. Neal discussed the investment philosophy and process that PIMCO employs. He stated that the fund outperformed the benchmark by about 500 basis points in 2008. The sector strategies were discussed as well as quality and alternative strategies.

Prudential Fixed Income Management – Jeffrey Alt, Lori Hosea

Mr. Alt introduced himself to the Board and stated that Prudential uses a straight-forward bottom-up process. This process is a fundamental research-based approach that has historically provided consistent outperformance versus broad corporate bond markets with a high information ratio. He stated that their resources (45 credit analysts and a 16-person investment grade corporate bond portfolio management team) are one of the best teams in the industry. With $204 B in assets under management, they offer $71 B in investment grade Corporates. This allows Prudential to afford so many credit analysts and be a major player in the corporate space. But, at this scale, Prudential can focus on adding value to bottom-up security selection. In managing an investment grade portfolio, value would be added to bottom-up decision making. He stated that Prudential employs career analysts who are sector specific and work in pairs with research analysts in the US and the UK.

Mr. Cox referred the Board to a chart that detailed the two managers' performances vs. their benchmarks and their peer groups. He stated that two distinct strategies were addressed in the manager presentations. He stated that a lot of consistency is shown between Prudential and PIMCO in the 3-year return comparisons. PIMCO has outperformed Prudential over longer time periods due to their recent performance where PIMCO had been more conservative. However, PIMCO has not been as consistent as Prudential. The Board agreed that Prudential seemed to perform on a more consistent basis with less volatility. CSG recommended that the Board choose Prudential based on the Board's overall goals.

Daisy made motion to select Prudential as the Investment Grade Fixed Income Manager and Mr. Johnson made a second. The Board unanimously agreed.

Mr. Lamb made motion to transfer approximately $20 M to Prudential and Mr. Johnson made a second. The Board unanimously agreed.

Executive Summary – March Performance Update - CSG

Mr. Cox explained to the Board that THB just informed them that their SMID-Cap Trust will close on April 30th. He recommended that the Board make an investment in a Russell 2000 exchange traded fund, which will keep the funds invested in the market while an investment manager search is put into place. The amount of funds that will be transferred will be approximately $5.2 M. Ms. Madison made motion to transfer the funds to an exchange traded fund and Mr. Lamb made a second. The board unanimously agreed.

Mr. Cox also discussed the SEC investigation surrounding a third party marketing firm with the New York State Common Retirement Fund. The extent of the investigation seems to be the New York Attorney General feeling that there was a lack of disclosure between the third party marketer and potentially a number of investment managers.

CSG has an alternative consulting business and sought to become a hedge fund of funds investment manager for the fund and hired the marketing firm to assist in expanding their effort. This agreement was fully disclosed to the fund's chief investment officer, internal and outside counsel and was made part of the documents for the custom portfolio.

Ms. Madison asked CSG to cover the brokerage recapture agreement. Mr. Cox stated that the Plan has a commission recapture agreement with CAPIS. The only recapture agreement with CSG is with CSG's related broker-dealer, TSG. In regard to Ironwood, TSG captures a portion of the management fee and 75% of that amount is used to offset against the Plan's consulting fee at CSG. The Board agreed that this recapture agreement has been fully disclosed on several occasions.

Report from Counsel

Ms. Malueg distributed Section 3.39 (2) of the City Charter for the Board to familiarize themselves with the actuarial process before voting on the percentage of pay in the next board meeting.

The next board meeting was scheduled for May 21, 2009 at 8:45 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

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Chairman

APPROVED:

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Secretary