

MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

August 20, 2009

The regular meeting of the City of Chattanooga General Pension Plan was held August 20, 2009 at 8:45 a.m. in the J.B. Collins Conference Room. Trustees present were Daisy Madison, Katie Reinsmidt, Dan Johnson, Terry Lamb, and Carl Levi. Others attending the meeting were Valerie Malueg, City Attorney's Office; Mike McMahan, City Attorney's Office; Pat Cox, Consulting Services Group; Scott Arnwine, Consulting Services Group; Todd Gardenhire, SmithBarney; Sharon Lea, City Personnel Office; and Teresa Hicks, First Tennessee Bank.

The meeting was called to order by Chairwoman Daisy Madison. A quorum was present.

The minutes of the meeting held July 16, 2009 were approved.

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

PART I – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

<u>COMPANY</u>	<u>AMOUNT PAYABLE</u>		<u>SERVICES RENDERED</u>
	<u>THIS PERIOD</u>	<u>YTD</u>	
CONSULTING SERVICES GROUP	\$12,961.25	\$12,961.25	Professional services for period ending June 30, 2009
FIRST TENNESSEE BANK	\$25,015.36	\$25,015.36	Professional services for period ending June 30, 2009
EFI ACTUARIES	\$27,891.62	\$27,891.62	Preparation of 01/01/2009 Experience Study, analysis of funding methods/strategies, June meeting expense, Corker benefit calculation

INVESTMENT MANAGERS

DUFF & PHELPS	\$9,690.00	\$9,690.00	Investment management expense for period ending June 30, 2009
INSIGHT CAPITAL	\$9,206.26	\$9,206.26	Investment management expense for period ending June 30, 2009
PATTEN & PATTEN	\$7,497.36	\$7,497.36	Investment management expense for period ending June 30, 2009
PRUDENTIAL	\$1,324.25	\$1,324.25	Investment management expense for period ending June 30, 2009
WEDGE	\$14,376.21	\$14,376.21	Investment management expense for period ending June 30, 2009

MANAGER TOTAL	\$42,094.08	\$42,094.08	
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ACCOUNTS RECEIVABLE

<u>COMPANY</u>	<u>AMOUNT RECEIVED</u>	<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>YTD</u>
No Activity		

REPORT OF ACCOUNT (S) PAID

MUTUAL OF OMAHA (Long-Term Disability)	\$9,154.71	\$18,412.09	Long Term Disability (50%) – July 09'
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MISCELLANEOUS ITEMS

<u>NAME</u>	<u>TRANSACTION</u>
No Activity	

2nd Q. 2009 Performance Review – CSG

Mr. Cox stated that the second quarter saw a renewed interest in risk appetite in the credit and equity markets. Global equities were up 16% to 26% for the quarter, while the credit sector was led by high yield that was up 12% to 36% for the quarter. He stated that a lot of the areas in the portfolio that were headwinds for the plan in 2008 were tailwinds for the second quarter. The plan trailed the composite indexes over the trailing one year due to the poor equity markets in late 2008 thru the first quarter of 2009. For the trailing five years the plan was ahead of both the composite index and static index net of fees. Over the trailing five year period large cap equities were ahead of the S&P 500, small cap equities were modestly behind the Russell 200 index, while international equity performance more than doubled the EAFE international equity index with the total hedge fund portfolio outpacing the benchmark by 1.9% and providing a positive 4.7% return compared to a -1.6% return for domestic equity. Domestic equity returns ranged from 16-20% and international equity markets were up over 20%. Most of this came from appreciation in global equity markets and thawing of global credits. He stated that the plan was regaining its loss from 2008 in this space.

Hedge fund allocations were benefiting from the better credit environment that has been available. With the strength of the quarter, hedge funds were up about 6.3% year-to-date, with global equities being up 4-8% year-to-date.

Large-cap managers across the board were in the top half of the universe and outperforming the benchmark. The small-cap managers have lagged in the second quarter.

Fixed income managers have remained in the top 25% of their universe for the quarter and YTD as credit market recovery has been a significant tailwind after providing a difficult environment.

Mr. Arnwine gave a brief overview of some of the manager performances as of June 30, 2009. He stated that most managers beat their benchmarks for the quarter. He also stated that the managers who were more defensive early in the year lagged in the second quarter. He reviewed managers who had these characteristics. They included Patten & Patten, Atalanta Sosnoff, NWQ, Wedge, and Insight. CSG stated that Insight has been a good manager on a long term basis, but if they do not see a turn around in their performance and they are not able to jump ahead, then they should be placed on a "short leash."

Mr. Cox stated that Duff & Phelps has kept pace with the benchmark and stayed in the top 25% in their peer group for the past 3 years. Ms. Reinsmidt disclosed to the Board that Duff & Phelps recently bought about 1 million shares from CBL.

Mr. Arnwine reviewed the two high yield managers, Seix and SMH. SMH is a lower quality high yield manager than SEIX. SMH was up 36% for the quarter. Seix, which had an 11.4% return for the quarter, has remained cautious and overweight to utilities, healthcare, and telecom. Prudential has continued to have strong performance, up 12% for the quarter. The global manager, Brandywine, has rebounded with a 12.5% return for the quarter.

As of July 31, 2009, performance in the equity markets continued to do well, both broadly and globally. Both domestic and small cap equities were up about 8%, international equities were up about 9%, hedge funds were up 1.5% for the month, total real estate was up about 10%, and the fixed income portfolio was up 3.4%. In total, the fund was up 5.6% for the month and 11.7% year-to-date. Overall, managers outperformed and rebounded nicely from 2008.

For August, Mr. Cox stated that it has been a very choppy month with the market being very cautious. He said that being underweight in equities and having more of an allocation in higher credit is a good approach to uncertainty. He stated that it is possible that the recession may end, with a timid growth of GDP with a record high of savings with consumers and extended unemployment levels.

Small-Cap Manager Search – CSG

Mr. Cox stated that they were ready to perform the search to replace THB.

RFP Update – City Attorney’s Office

Ms. Madison stated that the Board would discuss the RFP concerning the consultant at some point. Ms. Malueg stated that the contract for the custodian had expired on June 30, 2009 and wondered if the Board wanted to include the custodian with the consultant RFP. Mr. McMahan stated that his office would prepare a Custodian RFP and get it out by October 1, 2009. Ms. Madison stated that the contracted time should be whatever the maximum is, with a cancellation clause included. Mr. Lamb stated that he was not aware of a benefit of bundling the custodial and consulting services.

Mr. Johnson made a motion to authorize the RFP for custodial services and Mr. Lamb made a second. The Board unanimously agreed.

Mr. Lamb referred to the inquiries that several members of the Board and staff were starting to receive concerning the RFP for Consulting services. It was agreed that a list of the inquiries would be kept until an RFP was complete. Mr. McMahan stated that any potential conflicts of interest and disclosure questions listed by the SEC should be combined with the RFP. Mr. McMahan stated that their office should reformulate the RFP, send it to Mr. Lamb and Mr. Gardenhire for review, and then take care of the secretarial functions relating to the process once a final RFP is put together. Mr. Gardenhire stated that as long as the Board has a process in the investment policy statement, then the Board can make a choice based on that process. Mr. Lamb referred to the last Education seminar where it was advised to stick to the investment policy statement.

Mr. McMahan asked the Board whether they wanted to start the process with the Consultant or the Custodian. Ms. Madison stated that she felt it was better to start with the Consultant RFP.

The next board meeting was scheduled for September 17, 2009 at 8:45 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

Chairman

APPROVED:

Secretary