MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

May 20, 2010

The regular meeting of the City of Chattanooga General Pension Plan was held May 20, 2010 at 8:45 a.m. in the J.B. Collins Conference Room. Trustees present were Daisy Madison, BettyeLynn Smith, Katie Reinsmidt, Dan Johnson, and Terry Lamb. Others attending the meeting were Valerie Malueg; City Attorney's Office; Mike McMahan, City Attorney's Office; Robert Longfield, Consulting Services Group; Scott Arnwine, Consulting Services Group; Sharon Lea, City Personnel Office; Teresa Hicks, First Tennessee Bank; and Todd Gardenhire, SmithBarney.

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

The minutes of the meeting held April 21, 2010 were approved.

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

PART I – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID THIS PERIOD	YTD	PURPOSE
CITY OF CHATTANOOGA PERSONNEL DEPT.	$40,000.00		FY2010 Reimbursement to Personnel Department
CONSULTING SERVICES GROUP	$17,535.50		Professional services for period ending March 31, 2010
FIRST TENNESSEE BANK	$26,824.34		Professional services for period ending March 31, 2010
FYTD COMPANY TOTAL	$84,359.84	$177,010.65	

INVESTMENT MANAGERS (does not include direct bill thru First Tennessee)

DUFF & PHELPS	$14,162.00		Investment management expense for period ending March 31, 2010
INSIGHT CAPITAL	$11,408.28		Investment management expense for period ending March 31, 2010
SMH CAPITAL ADVISORS	$7,026.30		Investment management expense for period ending March 31, 2010
FYTD MANAGER TOTAL	$32,596.58	$421,748.62	

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT PAID THIS PERIOD	YTD	PURPOSE
No Activity			

REPORT OF ACCOUNT (S) PAID

COMPANY	AMOUNT PAID THIS PERIOD	YTD	PURPOSE
HARTFORD	$16,370.41	$96,553.96	Long-Term Disability (50%) – Apr., May 10’
FYTD LTD TOTAL	$16,370.41	$96,553.96	

Approval of Minutes & Administrative Issues

The Board discussed approval of the minutes from the meeting held April 21, 2010. Ms. Smith moved to approve the minutes and Mr. Johnson made a second. The Board unanimously agreed.

Ms. Lea reported the administrative actions for the month of March 2010. Mr. Johnson moved for approval and Mr. Lamb made a second. The Board unanimously agreed.

Ms. Lea also reported for Board approval the FY2011 administrative budget. The total budget of $296,650.07 includes budgeted amounts for actuarial, custodial, consulting, legal, personnel reimbursement, record management, trustee education, and website fees. Actual expenses for FY2010 were $243,185.15 as of May 19, 2010. This is expected to be $262,701.94 by the end of June. Mr. Johnson moved for approval and Mr. Lamb made a second. The Board unanimously agreed.

1st Quarter 2010 Performance & Manager Review – Consulting Services Group

Mr. Longfield presented the first quarter performance review to the Board. The total fund is up 4% for the quarter and 35% for the trailing one year period. Higher quality managers seemed to struggle the most this quarter. Health care issues and mortgage delinquencies played a part in the performance results. GDP is a positive 3.2 for the first quarter and is expected to stay in the 2.5 to 3.5 range due to the possibility of unemployment continuing to rise. He also emphasized that foreclosures could still increase and place continued stress on real estate prices. This is because 30% of current mortgages are considered “under water” since their value is less than the owed amount.

Mr. Longfield recommended the Board take $500,000 off the SEIX Portfolio to remain in compliance with the Plan’s investment objectives. He said this could be distributed to the Brandywine Portfolio. Ms. Smith moved to approve this recommendation and Mr. Lamb made a second. The Board unanimously agreed.

Mr. Longfield also suggested the Board consider education of emerging markets, real assets, and private real estate. This would increase the Plan’s private REIT exposure. He recommended the Board place this on a future agenda as an item for discussion. He stated this is an area where the Plan should add thru private investments and public markets.

Ms. Madison said she had heard in the past that it was just as good for pension plans to be invested in the index and asked Mr. Longfield to elaborate. He stated that all of the Plan’s investment results are shown compared to their indexes and referred to one manager, Insight, who had actually brought the performance of the Plan down. He recommended stepping off of this investment at their next rally. For the trailing five years, active managers have added 1.0% over the time frame. Indexing makes more sense in the large cap equity space and in fixed income with low yield environments.

Mr. Arnwine discussed the manager performance for the first quarter. Overall, small managers outperformed large managers and most did well. Patten & Patten performed right at their benchmark due to strong IT names. Atalanta Sosnoff underperformed for the quarter due to poor performance from consumer discretionary names. NWQ slightly underperformed due to being overweight in gold. Wedge was slightly down due to stock selection and being overweight in healthcare names. Insight, which had down performance in early January, is expected to have a 113% growth rate for the next fiscal year. Mr. Arnwine still recommended the Plan step away from Insight after their next rally. Thornburg benefited from emerging markets, Duff & Phelps performed at their index, and SMH experienced strong performance returns due to their weight in casinos and financials. Brandywine outperformed with the right currency verses credit.

Mr. Longfield stated the Plan performed in the top quartile for the quarter. He also stated that CSG would email an executive summary report for the OPEB trust, since this account is now fully invested.

January 1, 2010 Actuarial Valuation – EFI Actuaries

Greg Stump presented the January 1, 2010 Valuation results to the Board. He discussed the valuation results, funding policies, and possible GASB accounting changes. Accrued Liability (AL) increased from $256 million on January 1, 2009 to $266 million on January 1, 2010. The actuarial value of assets (AVA) increased from $220 million to $237.4 million on January 1, 2010. The AVA/AL ratio increased from 86% to 89% for January 1, 2010. He said this was good compared to other public plans, which average in the 70's. He said the City is the second highest that he is working with, the first being the District of Columbia. Unfunded Accrued Liability decreased from $36 million to $28.6 million for January 1, 2010. He recommended a percentage of pay of 11.47% for January 1, 2010, slightly decreased from 12.45% the previous year. He presented a "step" rate of 9.08% if the recommended rate was not feasible. This rate is 20% higher than the step rate of 7.57% used for 2009.

Reasons for the change in rate include a net impact of demographic and salary experience being close to zero, investment gains, and the current step rate strategy. The current policy for amortization is 30-years open level dollar, which did not change from the previous year. The current policy for Asset Smoothing is over 10 years with a 70-130% corridor. This policy changed last year from 5 years with an 80-120% corridor. The Plan's funded position includes unrecognized investment losses of $40 million as of December 31, 2009. This was $51 million at the end of 2008. The catch-up rates are likely to apply for a few more years, which also increase costs due to funding less than the actuarial determined rate.

Mr. Stump discussed possible GASB accounting changes that dealt with reporting for public pension plans. He stated preliminary reviews are to be issued in June, 2010. Items to be affected are the unfunded liability on balance sheets, a required entry age normal cost method, reducing the amortization period to the expected working lifetime of employees or shorter, and utilizing a 15% asset corridor. He also emphasized that GASB only determines rules for financial statements and not for funding.

Mr. Stump made a recommendation that the Board fund the Plan at the actuarially determined rate of 11.47%. He said if this is not feasible, then the Board should fund at the "step" rate of 9.08%. This step rate is 20% higher than the funding rate used last year. Mr. Lamb moved to approve the actuarially determined rate of 11.47% and Ms. Smith made a second. The Board unanimously agreed. The City Council would next approve this rate.

Ms. Madison asked Mr. Stump to comment on what other plans are doing with respect to funding health care benefits after retirement. He stated he had seen plans remain fully funded and also take funding completely away. The City currently provides retiree health insurance for employees who have 25 years or more of service or are at age 62 with at least 10 years of service. This coverage currently lasts beyond the age of Medicare. Mr. Stump stated about half of the Plans he works with provide lifetime benefits and all are coordinated with Medicare.

Board Discussion – RFP Consulting Services

Mr. Gardenhire presented his consulting services recommendations to the Board. If there were absolutely no contact with the consultants, he would rank them as the following: (1) Merrill Lynch, (2) Gray and Company, (3) The Bogdahn Group, and (4) Consulting Services Group. But, after all communication and interviews, he stated his current recommendation is the following: (1) retain Consulting Services Group, (2) Merrill Lynch, (3) Gray and Company, and (4) The Bogdahn Group.

He stated you lose the benefit of going strictly by the book when there is a lot of negative press surrounding a consultant. Also, a change would be very disruptive for the Plan. Going forward, he suggested we retain the same key personnel. He emphasized his concern that CSG was very reliant on alternative investments. He also suggested the Board going ahead and letting CSG place the fund with Insight into an index.

Ms. Madison asked if the current commission recapture program posed any issues. Mr. Lamb and Mr. Gardenhire both stated they did not think it was detrimental to the Plan and could not find a clear reason to change anything.

The Board discussed changing the contract with CSG to retain key personnel and changing the contract length to a shorter time period. Mr. Lamb moved to approve retaining Consulting Services Group to include contract negotiations and Ms. Smith made a second. The Board unanimously agreed.

The next board meeting was scheduled for August 19, 2010 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