

**MEETING OF THE TRUSTEES**

**CITY OF CHATTANOOGA GENERAL PENSION PLAN**

**October 21, 2010**

The regular meeting of the City of Chattanooga General Pension Plan was held October 21, 2010 at 8:45 a.m. in the J.B. Collins Conference Room. Trustees present were Daisy Madison, Carl Levi, Dan Johnson, and Terry Lamb. Others attending the meeting were Mike McMahan, City Attorney's Office; Robert Longfield, Consulting Services Group; Scott Arnwine, Consulting Services Group; Doug Kelley, Tonia Ewing, and Madeline Green, City Personnel Office; Steve McNally, 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 September 16, 2010 were approved.

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

**PART I – PARTICIPANT SUMMARY**

**SUMMARY OF PENSION APPLICATIONS-PENDING BOARD APPROVAL**

<u>NAME</u>	<u>DEPARTMENT</u>	<u>TYPE/OPTION</u>	<u>MONTHLY AMOUNT</u>	<u>EFFECTIVE DATE</u>
Clark, Cynthia	Police	Normal- No Option Elected	\$359.20	October 1, 2010
Gates, Cynthia (Previously vested - Three Year DROP - \$71,880.72)	Parks and Recreation	Rule of 80-	\$1,854.67	November 1, 2010
Graham, Alfred	HC 911 Communications	Immediate Early- No Option Elected	\$1,008.73	October 1, 2010
Love, Jack	Public Works	Immediate Early- No Option Elected	\$447.57	November 1, 2010
Shaw, Hershell	Public Works	Normal- Option C	\$1,526.25	October 1, 2010
Smith, Tony R. (Previously vested)	Human Services	Immediate Early- Option A	\$1,140.90	October 1, 2010

**BENEFIT REVISIONS/CONVERSIONS-PENDING BOARD REVIEW/APPROVAL**

<u>NAME</u>	<u>TYPE/OPTION</u>	<u>PREVIOUS AMOUNT APPROVED BY BOARD</u>	<u>REVISED AMOUNT</u>	<u>EFFECTIVE DATE</u>
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No Activity

**SELECTION OF OPTIONAL BENEFIT REPORT – VESTED OR AGE 62 AND OLDER PARTICIPANTS**

<u>NAME</u>	<u>OPTION</u>	<u>DATE</u>
Ronald L. Smith	Option B	October 12, 2010

**DISABILITY BENEFIT REPORT**

<u>NAME</u>	<u>MONTHLY DISABILITY BENEFIT AMOUNT</u>	<u>EFFECTIVE DATE</u>
No Activity		

**LUMP SUM DISTRIBUTIONS (FOR RATIFICATION-CHECKS PROCESSED)**

<u>NAME</u>	<u>DEPARTMENT</u>	<u>EMPLOYEE NUMBER</u>	<u>TERMINATION DATE</u>	<u>REFUND AMOUNT</u>
Aalberg, Pamela P.	Finance	65631	August 30, 2010	\$515.41
Brooks, Michael	Airport	63174	July 24, 2010	\$1,849.55
Dickey, Natalie	General Services	62678	August 13, 2010	\$2,934.00
Gardner, Brad C.	Neighborhood Services	63685	July 16, 2010	\$2,272.22
Hatch, Solomon	Mayor's Office	63170	August 10, 2010	\$2,012.43
Hicks, Torrey	Public Works	56355	September 17, 2010	\$2,247.67
Redden, Dwain	Neighborhood Services	63144	August 20, 2010	\$1,620.53
Santiago, Harrison	Police	65918	September 9, 2010	\$255.40
Thorne, David E.	Public Works	62895	September 3, 2010	\$2,758.11
Tucker, Tomeka M.	Human Services	62863	July 15, 2010	\$714.19
Sandefur, Bettye				\$869.18
(Beneficiary of deceased retiree Elizabeth Bush, died July 9, 2010-refund of remaining employee basis)				

<b>TOTAL</b>	<b>\$18,048.69</b>
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**PART II – ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	

No Activity

<b>COMPANY TOTAL</b>	<b>\$0.00</b>	<b>\$40,361.22</b>	
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**INVESTMENT MANAGERS (does not include direct bill thru Custodian)**

WEDGE CAPITAL MGMT	\$18,134.86	Investment management expense for period ending September 30, 2010
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<b>MANAGER TOTAL</b>	<b>\$18,134.86</b>	<b>\$157,862.52</b>	
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**ACCOUNTS RECEIVABLE**

COMPANY

No Activity

**REPORT OF ACCOUNT(S) PAID**

<u>COMPANY</u>	<u>AMOUNT PAID</u>		<u>PURPOSE</u>
	<u>THIS PERIOD</u>	<u>FYTD</u>	
THE HARTFORD	\$8,944.67		Long-Term Disability (50%) – Sept. 2010
THE HARTFORD	\$8,850.38		Long-Term Disability (50%) – Oct. 2010

<b>LTD TOTAL</b>	<b>\$ 17,795.05</b>	<b>\$38,934.43</b>	
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Approval of Minutes & Administrative Actions

The Board discussed approval of the minutes from the meeting held September 16, 2010. Mr. Lamb moved to approve the minutes and Mr. Johnson made a second. The Board unanimously agreed.

Doug Kelley reported the General Pension administrative actions for the month of September 2010. Mr. Lamb moved for approval and Mr. Johnson made a second. The Board unanimously agreed.

Report from Counsel

Mr. McMahan brought before the board the subject of Qualified Domestic Relations Order (QDRO). He stated most pension plans are subject to court orders in which an ex-spouse or children are assigned benefits. The City plan does not follow private plans and has an anti-alienation clause relative to assigning benefits. The City plan would require amendment if it adopted QDRO provisions in full or part. Mr. McMahan went on to say that City participants subject to court ordered asset division must offset other assets to adjust for the City pension since their pension benefit cannot be assigned.

Trustees were concerned with the added administrative issues for the staff and custodian. Mr. Lamb questioned why this topic has come up now? In reply, Mr. McMahan stated an employee is in divorce proceedings and wants to assign the pension benefit. The board further discussed the idea of voluntary versus involuntary forms of assignment on the part of the participant. Trustees want to safeguard the plan and plan participants and have asked Mr. McMahan to draft plan language allowing voluntary participant action. Trustees will review the draft document at a subsequent board meeting.

Board Discussion – COLA for Retirees

In advance of the 2011 calendar year, the board reviewed and discussed the COLA. The board distinguished between the General Pension Plan which reviews and approves an annual COLA and the City Fire & Police Plan which automatically adjusts benefits. Mr. Johnson and Mr. Lamb were hesitant to decide whether a COLA would be implemented and wanted to further review the matter, including reviewing the actuarial report. Consultant Arnwine informed the board the CPI was 1.2% year-to-date. Mr. Kelley described the prior history of COLAs and how adjustments were based upon September 30 government data. The city COLA is capped at 3%. The board determined the Chairwoman would discuss with the actuary the impact on the plan and share her discussion with the board for consideration at the next board meeting.

Board Discussion - OPEB

Ms. Madison confirmed she had emailed the actuarial calculation to the board. The funding breakdown as a percent of payroll was Fire & Police 23.2%, 911 Center 5.9%, Airport Authority 3.1%, and all other city departments 10.3%. The average is 14.9% fully funded.

Ms. Madison also mentioned the possible change in GASB for reporting pension and other post retirement benefits in which the city would be required to book full liabilities. She did not think the accounting change will be approved.

Consultant Investment Review

The CSG representative's agenda included their quarterly report, an executive summary of the OPEB, and discussion regarding distressed debt as an asset class for the plan.

Mr. Longfield summarized the 3<sup>rd</sup> quarter highlights relative to GDP, Fed action, consumer confidence and inflation. Mr. Arnwine reviewed plan results using the consultant's booklet. The plan returned 8.4% for the quarter and is up 6.2% year-to-date. Individual managers were highlighted and discussed. Domestic equities disappointed, bottom-up management and individual names, although solid names, may have underperformed. Top down macro investing performed well. Insight Capital, small cap manager, has underperformed relative to the market and if results don't improve, Mr. Longfield will come to the February 2011 meeting with a new recommended replacement.

Ms. Madison asked the consultants to explain a violation to investment policy. When adding together more than one manager and aggregating high yield bonds along with increasing values, the plan exceeds the maximum high yield exposure of 5%. It's currently at 5.2%. As a result, the consultant recommended reducing Seix High Yield by \$500,000 and the board approved the recommendation.

Mr. Arnwine summarized the results for the OPEB. It was up 8.8% for the quarter and 5.4% year-to-date. The trust has held a large cash balance which has been reduced over time.

Mr. Longfield provided the board a handout titled, "Asset Allocation Update." He reviewed asset allocation and probability of hitting the actuarial assumption rate based upon their models. To help achieve more return he recommended use of distressed debt. He felt comfortable adding 5-6% to this asset class. Domestic fixed income has very low current yields and distressed debt would increase the chance of attaining the return goal. Mr. Longfield explained distressed debt and the fact the plan has approximately 5% exposure to this class right now through hedge fund exposure. When asked what the source of funding would be, Mr. Longfield suggested they decrease domestic fixed income and high yield to fund 5% in additional distressed debt. Mr. Johnson questioned whether adding 5% to distressed debt which would bring it to 10% was wise. Mr. Longfield felt it was less risky than equities. Mr. Johnson also questioned the default rate and Mr. Longfield informed the board 1 of 20 names or less default.

Mr. Longfield then described the type of distressed debt managers from real estate to hedge to private equity. He wants someone with a shorter lock-up period, preferably 5-7 years. This type arrangement would likely be in a partnership form of ownership. He expects returns of 11% or greater. Mr. McMahan

stated he was nervous with a lock-up of 5-7 years and he would have to review the partnership documents, which can be lengthy.

Ms. Madison questioned what asset category distressed debt would be held in. Mr. Longfield suggested that shorter term debt would be considered fixed income and longer term in the alternative category. Ms. Madison stated we already have hedge funds (alternative investments). Mr. Longfield agreed, Pointer and Ironwood, each of which has lock-up periods although they are considered more liquid than distressed debt, however returns should be at a premium. Having 5% not liquid in a plan this size is okay according to Mr. Longfield.

Mr. Johnson asked the consultants about time frame for distressed debt managers. The consultants would like to bring in some managers to interview early next year. Mr. Longfield sensed some hesitancy on the part of the board. Mr. Lamb stated he knew enough not to support the idea particularly since it would stretch this asset category to 10%. Mr. Longfield mentioned that if they did not choose this than they would need to add to equities to add return potential to the portfolio. Mr. Lamb asked what plan "B" was if the board did not follow this recommendation. Mr. Longfield replied that if there was a pullback, he would decrease fixed income and add to domestic equities, plus he will look at other options. No decision was made and further options will be provided.

The next board meeting was scheduled for November 18, 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