

## MEETING OF THE TRUSTEES

### CITY OF CHATTANOOGA GENERAL PENSION PLAN

August 20, 2015

The regular scheduled meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on August 20, 2015 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Erskine Oglesby, Aon Miller, Carl Levi, and Steve Perry. Others attending the meeting were Phil Noblett, City Attorney's Office; Teresa Laney, First Tennessee Bank; Robert Longfield and Scott Arnwine, Gavion, LLC; and Todd Dockery, Madeline Green and Cheryl Powell, City Human Resources Department.

Definitions in the document: GPP is General Pension Plan, OPEB is Other Post-Employment Benefits

The meeting was called to order by Vice Chair Katie Reinsmidt because Chairwoman Daisy Madison was detained.

A quorum was present at the beginning of the meeting.

#### **Approval of Minutes**

*Carl Levi made a motion to approve the minutes of the May 21, 2015 meeting. Erskine Oglesby seconded the motion. The minutes of the meeting were unanimously approved.*

#### **Administrative Actions**

Cheryl Powell presented the Administrative actions for the previous quarter.

*Carl Levi made a motion to approve the administrative actions. Aon Miller seconded the motion. The administrative actions were unanimously approved.*

There is a need to ratify certain financial transactions that took place between board meetings that are not administrative actions. Specifically, liquidation of \$500,000 from the iShares Russell 1000 Growth Fund was needed to pay benefits, the small amount of funds in default at termination of SMH High Yield were moved to a cash position, and the Medley Opportunity Fund III funding call resulted in additional liquidation from the iShares Russell 1000 Growth Fund.

*Erskine Oglesby made a motion to ratify the actions taken to liquidate funds to pay benefits and fulfill capital call to Medley Opportunity Fund III and to move the unsettled SMH High Yield funds to cash account. Steve Perry seconded the motion. There was no further discussion. The motion was unanimously approved.*

#### **Statement of Investment Objectives – annual review**

The Statement of Investment Objectives document is reviewed by the board annually for any modifications or updates to reflect objectives for both the GPP and OPEB funds. Gavion did not make any recommendations for change to the document for either fund, so there are no changes to the document. However, the document will be reviewed for any typographical errors and formatting problems. On advice of counsel, even though there are no changes to the document, each board member must provide their signature to the document after review. This signature page for 2015 adoption will be available at the next board meeting.

*Erskine Oglesby made the motion to approve the document for the current investment objectives. Aon Miller seconded the motion. The document was unanimously approved.*

## Performance Review Second Quarter 2015 - Gavion

Robert Longfield provided a general overview of markets and near term outlook. While bond performance remains negative, the second quarter overall result was a reversal of the first quarter results. The shape of the yield curve changed (rates went up in the longer duration) and the dollar continued to strengthen. This tends to hurt fixed income investments, especially in international strategies. For this portfolio, the effects were felt in emerging market debt and in the Brandywine segment.

Slow growth is anticipated in the near term from the effects of the energy segment, particularly oil and gas prices, on the economy. At the same time construction is improving. The major question is when or whether the feds will raise interest rates. The thinking is that the market has already priced in 25bps of interest rate movement for this year.

In equities, the results are volatile driven by the Chinese stock market slow down and the Greek default. Greece is not a growing economy and will not likely be able to pay back their bailout. International stocks are up 7% year to date largely due to the strengthening dollar. The outlook is for further strengthening. This affects the results in the emerging market debt segment which is invested in local currency rather than being dollar denominated. However, the opportunities appear promising with local currency looking out three years. China's market is down after its tremendous growth, although it has not impacted our portfolio since the volatility is mostly involved with certain shares available only to Chinese nationals. On the other hand, the sell-off in China dissuades investment.

The effects of the energy sector have been difficult to assess but the opinion is that oil prices are more likely to rise than to fall. Herndon is the manager affected most by the volatility in oil prices since they are overweight to energy sector.

Overall the portfolio year to date is doing well. On page 8 in the summary, year to date results are in the top quartile relative to peers of similar size.

Scott Arnwine provided a brief recap of the investment performance for the second quarter. He prefaced his comments by stating that in 2014 among all active managers only 21% of managers exceeded their benchmarks. To June 30 this year, this proportion has improved to 35% of managers exceeding their benchmarks, indicating that managers are acting or reacting differently to events in the market. The GPP funds are up 3.1% year to date, while the OPEB funds are at 1.6% year to date, down from the prior quarter.

Within our portfolio, Herndon has struggled mainly because they are more concentrated in the energy sector. On the other hand Insight is less concentrated on energy and did well in the quarter. Kennedy and The London Company have a difference in investment focus, with London more concentrated in energy sector, such that Kennedy outperformed while London struggled. THB has been liquidated but a small dollar fund is held back related to audit closeout. This is the first reporting quarter for Oppenheimer Funds and they did well versus their benchmark. Robert indicated that Herndon is relatively new but their performance struggles have put them along with Patten and Patten under watch.

In Private Equity, the FCA Venture Partners, since 2001, is close to liquidation. This investment had a recent \$300,000 write-up in its potential distribution and it has three positions left. Both hedge funds managers, representing 17% of the portfolio, had good results. Recently added AEW results were down but performance was better than the benchmark.

Fixed income continued to have poor short term results relative to their benchmark. Longer duration investments and non-US exposure will tend to generate more negative results. Both Prudential and Brandywine results were below expectations. Prudential invests in US stocks, but Brandywine was affected due to certain international investments.

One action item to consider was presented. Pointer's allocation at 10.3% exceeds the maximum of 10%. The suggestion is to take \$5 million up to \$8 million from them to re-weight them in their class. The redemption would be re-deployed when capital needs arise in January. The need for capital in the Real Estate class is imminent with Intercontinental calling for funds in the near future. There was some discussion with an

alternative consideration to take \$5 million from Pointer and \$2 million from Ironwood. It is important to keep our overall allocation in line. Some concern was expressed in redeeming from Pointer, since they are performing well.

OPEB allocations also need to be adjusted to stay near target on hedge funds. OPEB has high concentration in Brandywine and cash to deploy. Private debt is still an item needing action in the OPEB fund.

After some discussion about the action items and the amounts to reallocate in both portfolios, the following actions were recommended.

***Erksine Oglesby made a motion to modify the allocations for the GPP by raising \$5m from Pointer and \$2m from Ironwood to add to cash for eventual funding of Intercontinental Real Estate Fund and other anticipated capital calls. The Prudential fund will be the source for other calls, including paying benefits, as needed. Aon Miller seconded the motion. There was no further discussion. The motion carried.***

***Katie Reinsmidt made a motion to modify the allocations for the OPEB by allocating cash in the amount of \$500,000 to Pointer and \$500,000 to Allianz short duration high yield. Aon Miller seconded the motion. There was no further discussion. The motion carried.***

***Katie Reinsmidt made a motion to select Medley in the Private Debt class for OPEB and allocate \$2 million from cash to the Medley Opportunity Fund III. Aon Miller seconded the motion. There was no further discussion. The motion carried.***

#### **Investment Manager Review (Board's annual review)**

Robert and Scott provided an update about Gavion in the 2 years since it came into existence as the institutional group out of CSG.

- There are 18 employees
- 32 clients and the firm continues to grow
- \$22 Billion under advisement; funds have increased \$2B since the spinoff from CSG
- Company is 90% employee owned
- Relationship with City of Chattanooga is approximately 10 years
- Have lost a few small clients with the largest being Florida International University
- No pending litigation or SEC investigations.

Robert and Scott left the room for the Board members to review performance and retention.

Carl Levi opined that they have done a good job, that they are a Tennessee firm, and that they have established a presence with the board. Aon Miller agrees but did ask historically how often there is a bid to change investment management. Generally, there is a 3-5 year cycle of bids for services by sending an RFP or RFQ. From a due diligence position, perhaps there is a need for a bid or request; however, professional services are different and often evaluated on a year to year basis. It is difficult to compare performance of two entities unless there is control over the circumstances in which the comparison is made. Since no member has a concern with their performance, the discussion was in favor of retaining Gavion.

***Steve Perry made a motion to retain the services of Gavion at this time. Erskine Oglesby seconded the motion. There was no further discussion. The motion carried.***

Robert and Scott were invited back into the room.

**Report from Counsel**

Phil Noblett, sitting in for Valerie Malueg, recommended that an amendment to the Gavion contract be generated to add OPEB oversight and fees. Because we have had several contract versions, the most current amendment needs to be signed and attached to the correct version of the Gavion contract. It was also recommended that Gavion provide two separate invoices so that fees are paid from the GPP and OPEB as appropriate.

There being no other business, *Carl Levi made a motion to adjourn and Erskine Oglesby seconded the motion.* The meeting was adjourned by Daisy Madison.

APPROVED:

  
Chairman

  
Secretary

**CITY OF CHATTANOOGA GENERAL PENSION PLAN  
ADMINISTRATIVE ACTIONS**

Meeting of Trustees  
August 20, 2015

**PART I - PARTICIPANT SUMMARY**

**SUMMARY OF PENSION PLAN APPLICATIONS**

Name	Department	Type	Option	Monthly Amount	Effective Date	DROP	Notes
Banks, James L	Public Works	Normal	A	\$2,705.04	9/1/2015	\$118,403.47	
Bonner, Preston	Public Works	Rule of 80	no	\$1,335.21	8/1/2015	\$16,477.68	
Bryson, Luther	Parks	Normal	no	\$1,086.32	6/1/2015		
Casey, Beverly	General Services	Normal	no	\$1,843.98	7/1/2015	\$78,324.19	
Coulter, Catherine Ann	RPA	Normal	B	\$724.62	8/1/2015		vested
Fritz, Kenneth O.	General Government	Imm Early	no	\$678.71	6/1/2015		vested
Lewis, Julia M.	Headstart	Normal	B	\$310.85	8/1/2015		
Lowrance, Amos	ECD	Rule of 80	B	\$1,705.51	7/1/2015	\$50,991.14	
Robinson, Walter L	Public Works	Rule of 80	B	\$1,058.30	9/1/2015		
Smith, Daphne B.	Finance - Court	Normal	D	\$555.66	8/1/2015		
Smith, Faustina	EAC	Normal	B	\$657.53	8/1/2015		
Smith, Terry M	Police Services	Rule of 80	no	\$1,410.92	7/1/2015		
Smythe, Courtland	General Services	Normal	no	\$1,359.40	7/1/2015		
Stagmaier, Vicki	Library	Normal	no	\$1,005.76	6/1/2015		
Stamper, Betsy	Finance	Rule of 80	A	\$1,345.85	6/1/2015	\$16,849.81	
Stegall, Sandra	Finance	Rule of 80	no	\$1,190.78	7/1/2015		
Tazewell, Karen	Police Services	Rule of 80	A	\$1,340.96	6/1/2015	\$51,420.54	
White, Willie L.	Headstart	Normal	B	\$1,721.88	8/1/2015	\$89,986.82	
Woodard, Peter	Public Works	Rule of 80	A	\$1,186.12	6/1/2015	\$14,746.78	vested

Count	19	\$23,223.40	\$156,154.14
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**BENEFIT REVISIONS/CONVERSIONS - PENDING BOARD REVIEW/APPROVAL**

NAME	TYPE	Option	Previous amount approved	Revised amount	Effective date
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**SELECTION OF OPTIONAL BENEFIT REPORT - VESTED OR ATTAINED AGE 62 OR GREATER**

NAME	OPTION	Effective Date
Donald Green	B	5/24/2015
Johnna Johnson	A	6/19/2015

**DISABILITY BENEFIT REPORT**

NAME	TYPE	Employee Number	Monthly Benefit Amount	Effective Date	Notes
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**LUMP SUM DISTRIBUTIONS (FOR RATIFICATION - CHECKS PROCESSED)**

Return of contributions			\$41,208.35	26	
NAME	Department	Employee Number	Refund Amount	Termination Date	Notes
Bailey, Bryan	Public Works	75087	\$31.90	3/25/2015	
Brown, Joseph M.	Public Works	73084	\$941.07	5/7/2015	
Burton, Reeta	General Services	63196	\$2,963.13	5/1/2015	vested
Cunningham, Marlana	Human Services	62367	\$2,768.24	4/29/2015	vested
Davis, Joel T	Public Works	67326	\$2,944.97	12/25/2014	
Donelson, Thomaas	Public Works	74272	\$341.60	6/18/2015	
Erdman, Gregory	Public Works	68111	\$2,428.51	5/15/2015	
Erwin, Kari L	Fire Resource	73988	\$339.43	4/16/2015	
Freeman, Rita	Human Services	65979	\$295.49	5/22/2015	
Grayson, Brittany	Human Services	70753	\$585.65	5/22/2015	
Gustus, Moesheay	Public Works	63012	\$3,714.57	5/4/2015	vested
Heard, Cleophus	Public Works	72535	\$882.88	5/7/2015	
Hill, Nathaniel	Library	69139	\$4,179.33	5/28/2015	
Hoenke, Justin	Library	71152	\$2,068.83	6/12/2015	
Jacobs, Abigail, T	Public Works	72964	\$711.35	4/16/2015	
Lance, Christopher	Public Works	68112	\$2,144.91	2/23/2015	
Lawson, Billy J.	Public Works	73667	\$636.23	6/11/2015	
Montgomery, Keith	Public Works	73004	\$1,140.46	5/12/2015	
Moses, Casey	Airport	na	\$588.41	6/3/2015	
Neely, Damany	Public Works	70697	\$1,245.04	5/8/2015	
Parham, Kenetra	Parks and Recreation	55620	\$6,002.29	11/1/2012	vested
Slayton, Joseph	RPA	67391	\$1,129.40	6/12/2015	
Spear, Michael	Public Works	73044	\$269.42	5/15/2015	
Walker, Justin	General Services	70772	\$1,765.45	6/30/2015	
Williams, Michael A	General Government	74090	\$327.42	3/26/2015	
Wyatt, Eric	ECD	73328	\$762.37	6/4/2015	

**Return of deceased retiree basis**

Name	RETIREE NAME	Date of Death	Refund Amount	Notes
Karen M. Tatum	Pauline Miller	1/9/2015	\$250.00	Dept of Educ

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		186,432.78		FY2015
Cavanaugh Macdonald	396.00		5/31/2015	Net OPEB obligation
Cavanaugh Macdonald				
Cavanaugh Macdonald				
Chattanooga Times Free Press	33.53		5/31/2015	Meeting ad 5/14/2015
Gavion, LLC	26,666.67		6/30/2015	Investment consulting services
First Tennessee Bank	29,146.55		6/30/2015	Administrative expense
City of Chattanooga Human Resources				
<b>COMPANY TOTAL</b>	<b>56,242.75</b>	<b>242,675.53</b>		

***Investment Managers -- Fees Paid***

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	YTD		
Fiscal Year to date - prior quarter		466,035.06		FY2015
Chartwell	7,375.90		6/30/2015	Investment management fees
Herndon	50,574.20		6/30/2015	Investment management fees
Insight	21,847.12		6/30/2015	Investment management fees
Kennedy Capital Management	16,845.00		6/30/2015	Investment management fees
Patten & Patten	11,998.36		6/30/2015	Investment management fees
The London Company	16,438.00		6/30/2015	Investment management fees
Wedge Capital	35,104.34		6/30/2015	Investment management fees
SMH Capital Advisors				Investment management fees
<b>MANAGER TOTAL</b>	<b>160,182.92</b>	<b>626,217.98</b>		



**ACCOUNTS RECEIVABLE**

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Prior quarter total		\$24,775.47	
Delta Venture Partners II, LP			distribution

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<b>COMPANY TOTAL</b>	-	<b>24,775.47</b>
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**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal Year to Date		4,500,000.00		FY2015
Fiscal Year to Date				FY2016
iShares Russell 1000 liquidation	500,000		7/13/2015	to pay benefits

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<b>MISCELLANEOUS TOTAL</b>	<b>500,000.00</b>	<b>5,000,000.00</b>
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**REPORT OF ACCOUNT(S) PAID**

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	QUARTER ENDING	PURPOSE
Fiscal Year to date		109,592.37		FY2015
VOYA	11,218.03		4/30/2015	Long Term Disability (50%)
VOYA	11,218.04		5/31/2015	Long Term Disability (50%)
VOYA	11,218.04		6/30/2015	Long Term Disability (50%)
VOYA	11,225.41		12/31/2014	Long Term Disability (50%)
<b>TOTAL</b>	<b>44,879.52</b>	<b>154,471.89</b>		

**CITY OF CHATTANOOGA OPEB TRUST  
 ADMINISTRATIVE ACTIONS**

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Prior quarter total		\$11,925.80		FY2015
First Tennessee	4,507.02		6/30/2015	Administrative Expense
<b>COMPANY TOTAL</b>	<b>4,507.02</b>	<b>\$16,432.82</b>		

*Investment Managers -- Fees Paid*

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		45,464.72		FY2015
Herndon	15,259.77		6/30/2015	Investment management fees
<b>MANAGER TOTAL</b>	<b>15,259.77</b>	<b>60,724.49</b>		

**ACCOUNTS RECEIVABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Prior quarter total				
<b>COMPANY TOTAL</b>				

**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal year to date				
<b>MISCELLANEOUS TOTAL</b>	<b>0.00</b>	<b>0.00</b>		