

**MEETING OF THE TRUSTEES**  
**CITY OF CHATTANOOGA GENERAL PENSION PLAN**

May 21, 2015

The regular scheduled meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on May 21, 2015 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Erskine Oglesby, Aon Miller, Carl Levi, Stacy Richardson, and Steve Perry. Others attending the meeting were Ed Koebel and Dayna Waddell, Cavanaugh Macdonald Consulting; Valerie Malueg, City Attorney's Office; Steve McNally, First Tennessee Bank; 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 Secretary Carl Levi because Chairwoman Daisy Madison was detained.

A quorum was present at the beginning of the meeting.

**Approval of Minutes**

*Aon Miller made a motion to approve the minutes of the February 19, 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.

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

**General Pension Plan Actuarial Valuation Results – Ed Koebel, Cavanaugh Macdonald**

Ed provided a handout of the results of the valuation to each member. Overall the valuation news is good and the Plan is in good shape. He began by highlighting the key findings of the valuation: the Market Value return was 5.54% while the Actuarial return was 6.51%, the latter due to the ten year smoothing of asset gains and losses; the Plan's funded status is 88.4%, a slight decrease from the 88.5% of the prior valuation (the average for the public sector nationally is 71%); and the Annual Required Contribution increased from \$7.8 million to \$8.1 million or 14.11% of payroll. The liability for benefits to retired participants represents more than half of the \$351 million total liability of the fund. The active employees and the deferred vested participants represent the remaining liabilities in the fund.

The investment rate of return decreased from 17.05% in the prior valuation to 5.54% and this was the major factor driving the changes in funding status and increased contribution level. While actual salary increases for active employees are lower than the level anticipated in the valuation assumptions and produced a sizable valuation gain, the modest losses due to mortality, retirement, new entrants, and terminations completely offset those gains.

The amortization period for the accrued liability is 28 years based on regulatory requirements (State of Tennessee Senate Bill 2079) and there was some discussion about the operation of the closed amortization period for multiple layers of actuarial accrued liability. As part of the new funding policy, each year, the new gain or loss will have its own origination date and amortization period of 30 years. Over time, the report will have to monitor the payment of this debt over multiple closed amortization periods.

The trend projections for the near future, assuming a 7.50% rate of return for all years, shows a steady increase in the Annual Required Contribution percentage to approximately 16 % in 2018 at which time the percentage

rate begins to decline approximating the current level in 2023. It is in 2019 when the losses of 2008 will no longer have an impact in the asset returns.

On page 12 of the handout, both the baseline 2015 results and a 'mark to market' 2015 result were provided. This year the Market value of assets and the Actuarial value of assets are very close, roughly \$300,000 apart. The Board has the opportunity to mark assets to market values which means all gains and losses from the last 10 years would be recognized immediately and market value of assets would be used. The reason for doing this would be to change to a shorter period for smoothing the assets. The maximum smoothing period allowed is 10 years in State of Tennessee Senate Bill 2079. This mark to market change is allowed by the pension funding outline in State of Tennessee Senate Bill 2079 and most plans use a five year smoothing. By marking to market, there would be a change to 5 year smoothing, or some period of smoothing between 5 and 10 years, rather than the 10 year smoothing currently in use, and a 20% corridor would be placed around the market value so that the actuarial value cannot deviate from the market value outside the corridor. The effect would be to remove the recognition of the large losses of 2008. A schedule of the recognition of investment income (gains and losses) was provided to the board. On the downside, the future contribution requirements could be more volatile due to the shorter smoothing time frame. The mark to market projection line for future Annual Required Contribution percentages over the next 10 years based on current data and assumptions does rise incrementally over time reaching levels above the anticipated Annual Required Contribution percentages of the existing model.

There was some discussion by the Board around this presentation and proposed 'mark to market' idea for understanding the issues and consequences.

*Aon Miller made a motion to retain the ten year smoothing and not mark assets to market, and accept the Annual Required Contribution rate of 14.11%. Steve Perry seconded the motion. The motion carried.*

#### **Proposed General Pension Plan Budget FY 2016**

Cheryl Powell presented the proposed Plan expense budget for the next year.

*Steve Perry made the motion to accept the proposed FY 2016 budget, amended to include the additional \$20,000 charge for OPEB. Aon Miller seconded the motion. The motion carried.*

#### **Ratify Capital Call Liquidation transaction for TerraCap funding**

In the intervening time between board meetings, the capital call to fund our agreement with TerraCap came due and the decisions to provide the funding within the portfolio had to be determined at that time. At this time the board will need to ratify the actual actions taken to raise the \$3 million in funding.

*Carl Levi made the motion to ratify the liquidation transaction that occurred April 22<sup>nd</sup>-25<sup>th</sup> to fund the TerraCap call for capital. Stacy Richardson seconded the motion. The motion carried.*

#### **OPEB Trust Fund Consulting Services Agreement**

Scott Arnwine outlined the reasons for the change in consulting services fees. Among these are the implementation of the results of the asset allocation study for OPEB and the extra due diligence performed in the addition of asset classes and managers as the assets have grown. At the initiation of OPEB there was a one-time \$5,000 fee for the consulting services, but since that time, additional services have been rendered. The quoted additional annual fee is \$20,000.00. The investment policy is the same for both GPP and OPEB, but the investment allocation to asset classes differ between the funds, mainly due to the size difference of the two funds.

Valerie Malueg indicated that the contract terms would have to be amended so that all advisory services that apply to General Pension Plan will apply to OPEB. She will handle the specifics of changing the contract and obtaining the applicable signatures.

***Aon Miller made the motion to amend the current contract to add OPEB and pay an additional \$20,000 annual fee to Gavion, LLC. Carl Levi seconded the motion. The motion carried.***

#### **Performance Review First Quarter 2015 - Gavion**

Scott Arnwine provided a brief recap of the investment performance for the first quarter.

Unlike the volatility and the underperformance of large cap equity market managers relative to benchmarks in 2014, the first quarter results appeared to reverse this course. There was still some volatility; however, managers experienced improved performance relative to benchmarks. With the changes to allocations and additions of asset classes in the GPP portfolio, the portfolio is exceeding the actuarial assumption in the trailing 3 year and 5 year marks. Daisy Madison requested that the 1 year trailing mark be added to that measurement. There was an additional question concerning the composite indices for measuring the total fund, in particular, the combination of assets that comprise the second measurement line instead of using the S&P 500. According to Scott it has not been changed in a few years and was representative of the portfolio a few years ago. It may be time to review that mixture of assets again for the current investment mix or add a line with the S&P measure.

Relative to our policy guidelines, the portfolio is within the allocation guidelines except for the Total fixed income, where the red value occurs due to being under the minimum of 20%. This violation occurs mainly due to growth in equities. In each sub-category of fixed income, there is no violation. Because the long term outlook for fixed is still low, there is no interest in increasing the allocation to this class.

The portfolio earned 2.9% for the quarter on a \$277 million fund, which is above the anticipated return. In equities, two managers, Herndon and London Company, who struggled in 2014 due to their weightings in the energy sector, showed significant improvement relative to their benchmarks for 1Q. One recommendation for modifying the equity portfolio is to liquidate THB Microcap Trust and move these funds to cash or use the funds to make benefit payments. The recently added new manager OFI (Oppenheimer funds) in the international equity also performed strong thus far in 1Q. The alternative investments and hedge funds have performed well and continue to reduce overall volatility in the portfolio. New global real estate manager AEW also exceeded its benchmark for 1Q. Fixed income performance exceeded the overall benchmark for 1Q. The character of the fixed income portfolio has been changed to a more global investment rate fixed with shorter duration. New manager Aberdeen struggled in 1Q and were in line with the benchmark but they did have good results in April.

For OPEB, the investment allocations are not the same as for General Pension and over time the investment in this fund has grown. There were no violations of policy and results were positive and above benchmark for the quarter. The current fund is now \$39 million.

There were questions about the comparable allocations in the two funds, in particular the allocation to Pointer and whether it should be a higher amount in the OPEB fund. The differences between OPEB and GPP are related to growth in the asset classes. It is likely that the Pointer allocation will grow on its own. OPEB allocations are relatively new whereas GPP funding in comparable classes has had more time to age.

Another question was raised pertaining to the overall level of expenses to the managers for core and the inclusion of non-core to see what is being paid overall. It was felt that this would be good overall information for the board. Scott agreed that the information would be helpful and that results shown in the report cards are net of expenses.

***Carl Levi made the motion to liquidate THB Microcap Trust on Gavion's recommendation and use the funds to pay benefits or add to fixed income. Aon Miller seconded the motion. The motion carried.***

**Approval/Acceptance of the Pension Funding Document**

The document was presented at the February meeting and discussed at that time. It could not be put to a vote because there was not a quorum present at the time of the discussion.

*Erskine Oglesby made the motion to accept as final the Pension Funding Document. Aon Miller seconded the motion. The motion carried.*

**Accept Reduction in Fees of OFI Global Asset Management (Oppenheimer) Funds contract**

The item was presented at the February meeting and discussed at that time. It could not be put to a vote because there was not a quorum present at the time of the discussion.

*Steve Perry made the motion to accept the contract amendment to reduce the fees of OFI Global Asset Management Fund. Aon Miller seconded the motion. The motion carried.*

**Report from Counsel**

Valerie Malueg presented a Resolution to be signed by the Secretary that the Board has approved the Pension Funding policy. The required signatures were obtained at the meeting. The Resolution will be attached to these minutes.

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

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

**Meeting of Trustees  
May 21, 2015**

**PART I - PARTICIPANT SUMMARY**

**SUMMARY OF PENSION PLAN APPLICATIONS**

Name	Department	Type	Option	Monthly Amount	Effective Date	DROP	Notes
Andrews, Finbar	General Services	Imm Early	A	\$138.74	5/1/2015		
Bell, Cynthia B.	911 Communications	Rule of 80	B	\$1,279.22	4/1/2015	\$17,579.79	
Edwina Carla Lewis	Public Works	Normal	A	\$783.77	5/1/2015		
Fraday, Lois E	Public Works	Normal	no	\$655.17	5/1/2015		
Lamb, Tyrone	Public Works	Normal	B	\$1,106.09	5/1/2015	\$16,257.68	
Lyon, Lorraine	Library	Normal	A	\$247.76	3/1/2015		vested
Neeley, Shelia	Police Services	Normal	no	\$2,094.97	4/1/2015		
Nelson, Joy	Communications civili	Normal	A	\$850.59	5/1/2015		vested
Sands, Arthur	Public Works	Rule of 80	no	\$1,240.93	5/1/2015		
Sivley, Carol	Human Resources	Imm Early	no	\$972.19	3/1/2015		vested LTD
Sloan, Joan	Public Works	Imm Early	no	\$938.33	4/1/2015		
Smith, Everett Franklin	Transportation	Normal	no	\$1,977.90	4/1/2015		
Wheeler, Deborah	Police Services	Normal	no	\$761.82	5/1/2015		
Wyatt, Charles L	Public Works	Normal	C	\$539.81	4/1/2015		
Yearby, Lee	Public Works	Normal	B	\$1,112.98	3/1/2015	\$59,844.83	

Count 15

**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
Carla Lewis	B	3/13/2015
Ty McGee	B	3/13/2015
Danny Gordon	B	3/25/2015

**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		\$51,630.45		15	
NAME	Department	Employee Number	Refund Amount	Termination Date	Notes
Albright, Julie	Police Services	70936	\$802.38	11/6/2014	
Boscaino, Drake	Public Works	68144	\$1,989.90	3/27/2015	
Brogdon, James	Transportation	69525	\$2,920.05	10/17/2014	
Clark, TaWanna	Public Works	61479	\$8,154.19	8/22/2011	vested
Gilliam, Brian K	Public Works	62782	\$5,824.48	4/16/2015	
Hines, Sharon	Headstart	73868	\$179.48	1/8/2015	automatic
Huffman, Aristotle	YFD	63522	\$3,555.76	3/23/2015	vested
Langston, Sherita	Headstart	76006	\$277.17	10/31/2014	
Matthews, Joseph	Public Works	68445	\$1,250.25	9/29/2014	
Mullins, Regina	Library	55072	\$11,689.02	8/11/2011	vested
Oddo, Samantha	Police Services	69241	\$1,191.49	3/16/2015	
Thurman, Marshall	Public Works	61464	\$6,902.86	2/4/2015	vested
White, Christopher	Airport	na	\$365.56	1/17/2015	automatic
Windberry, Jared	General Govt	66623	\$6,105.42	1/8/2015	automatic
Zuffelato, John	General Services	73426	\$422.44	12/26/2014	

**Return of deceased retiree basis**

Name	RETIREE NAME	Date of Death	Refund Amount	Notes
Maletha Belgon	Mary Spurgeon	1/21/2015	\$901.43	
Randy Crittenden	Laura Jean Crittenden	2/15/2015	\$2,618.39	
Vonetta Clay	Willie A. Norris	4/10/2015	\$434.26	

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		118,570.46		FY2015
Cavanaugh Macdonald	3,478.00		3/31/2015	GPP valuation January
Cavanaugh Macdonald	7,244.00		3/31/2015	GPP valuation February
Cavanaugh Macdonald	1,188.00		3/31/2015	GPP Funding policy
Chattanooga Times Free Press	40.80		3/31/2015	Meeting ad 2/12/2015
Gavion, LLC	25,000.00		3/31/2015	Investment consulting services
First Tennessee Bank	30,911.52		3/31/2015	Administrative expense
City of Chattanooga Human Resources	45,000.00			FY2015 Administrative expense
<b>COMPANY TOTAL</b>	<b>67,862.32</b>	<b>186,432.78</b>		

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

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	YTD		
Fiscal Year to date - prior quarter		307,332.94		FY2015
Chartwell	7,350.83		3/31/2015	Investment management fees
Herndon	50,209.72		3/31/2015	Investment management fees
Insight	21,236.72		3/31/2015	Investment management fees
Kennedy Capital Management	16,201.00		3/31/2015	Investment management fees
Patten & Patten	12,012.71		3/31/2015	Investment management fees
The London Company	16,675.00		3/31/2015	Investment management fees
Wedge Capital	35,016.14		3/31/2015	Investment management fees
SMH Capital Advisors				Investment management fees
<b>MANAGER TOTAL</b>	<b>158,702.12</b>	<b>466,035.06</b>		

**ACCOUNTS RECEIVABLE**

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Prior quarter total			
Delta Venture Partners II, LP	24,775.47	3/27/2015	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		37,313,954.00		FY2014
Fiscal Year to Date		4,500,000.00		FY2015

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<b>MISCELLANEOUS TOTAL</b>	<b>0.00</b>	<b>4,500,000.00</b>
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**REPORT OF ACCOUNT(S) PAID**

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	QUARTER ENDING	PURPOSE
Fiscal Year to date		75,893.42		FY2015
ING	11,218.03		1/31/2015	Long Term Disability (50%)
ING	11,218.03		2/28/2015	Long Term Disability (50%)
ING	11,262.89		3/31/2015	Long Term Disability (50%)

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<b>TOTAL</b>	<b>33,698.95</b>	<b>109,592.37</b>
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**CITY OF CHATTANOOGA OPEB TRUST  
ADMINISTRATIVE ACTIONS**

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to date		\$12,262.19		FY2014
Prior quarter total		\$8,082.10		FY2015
First Tennessee	3,843.70		3/31/2015	Administrative Expense
<b>COMPANY TOTAL</b>	<b>3,843.70</b>	<b>\$11,925.80</b>		

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

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		15,317.58		FY2015
Herndon	15,068.20		12/31/2014	Investment management fees
Herndon	15,078.94		3/31/2015	Investment management fees
<b>MANAGER TOTAL</b>	<b>30,147.14</b>	<b>45,464.72</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>		

APPROVED:

  
Chairman

  
Secretary