

MEETING OF THE TRUSTEES
CITY OF CHATTANOOGA GENERAL PENSION PLAN

May 26, 2016

The regular scheduled meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on May 26, 2016 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Stacy Richardson, Erskine Oglesby, Carl Levi, and Steve Perry. Others attending the meeting were Valerie Malueg, City Attorney's Office; Teresa Laney, First Tennessee Bank; Robert Longfield and Scott Arnwine, Gavion, LLC; and Madeline Green, Todd Dockery 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 Chair Daisy Madison.

A quorum was present at the beginning of the meeting.

Approval of Minutes

Erskine Oglesby made a motion to approve the minutes of the February 18, 2016 meeting. Stacy Richardson seconded the motion. The minutes of the meeting were unanimously approved.

Administrative Actions

Cheryl Powell presented the Administrative actions for the previous quarter. Certain investment transactions were highlighted for the board including the Insight class action that is being processed by First Tennessee and the Greenspring Capital call funding.

Carl Levi made a motion to approve the administrative actions. Stacy Richardson seconded the motion. The administrative actions were unanimously approved.

Cheryl Powell then presented a revision of the form for Refund of Contributions for approval including the revised Special Tax Notice. The Special Tax Notice was reviewed and expanded by Chambliss, Bahner & Stophel, PC. She requested that the form and the notice be approved for use right away.

Carl Levi made a motion to approve the new form and Special Tax Notice for use. Stacy Richardson seconded the motion. The new documents were unanimously approved.

The TerraCap Partners III sent a letter requiring action regarding the terms of the subscription and refundable amounts. There was an incorrectly calculated notional interest true-up and an incorrect initial management fee charge. Two options were provided to remedy this situation and Scott Arnwine had suggested Option 1 which is to include these corrections as part of the Capital Commitment. The selection states that the Plan:

“would like to amend my Subscription Agreement such that my Capital Commitment will equal my Fixed Cash Commitment less the Corrected Additional Amount, effective as of the date of my subscription. I agree to have the Return Amount owed to me delivered via wire transfer.”

Daisy Madison asks that the action taken be ratified by the board.

Steve Perry made a motion to ratify the choice of Option 1 as the remedy for the incorrectly calculated amounts. Erskine Oglesby seconded the motion. The action taken was unanimously approved.

Next, Cheryl Powell provided background information about the situation with retiree Helen McCuiston. She died in December 2011; however, the Plan was not notified of her death and it was discovered just his year with

a returned piece of mail. The Plan has been paying benefits for the four intervening years. First Tennessee Bank did perform an investigation of the circumstances. SunTrust Bank, where Ms. McCuiston had her account, was asked to provide information and feedback on how a dead person's account could continue to accept deposits. In the meantime, a request was received from a relative of Ms. McCuiston to change the bank account for the direct deposit of the payments. The board briefly discussed the possible actions to be taken to attempt to recover the overpayment of benefits. Cheryl and Valerie Malueg will follow-up on this matter.

Cheryl Powell presented the proposed board budget for fiscal year 2017. The main differences from fiscal year 2016 is that (1) there will be no OPEB valuation, however, an additional \$1,000 has been budgeted for the miscellaneous actuarial services, (2) First Tennessee custodial costs have decreased slightly for GPP but increased for OPEB, and (3) anticipated legal fees were increased by \$2,500 in the event of follow-up costs to the IRS determination letter response. There is a 4% increase in LTD premium rate; however, the amount budgeted in the prior year appears to be sufficient. There was some discussion about recordkeeping costs and Todd Dockery indicated that Human Resources may incur costs for recordkeeping in this coming fiscal year. That budget item was unchanged.

Carl Levi made a motion to approve the budget for fiscal 2017. Erskine Oglesby seconded the motion. The budget was approved as presented.

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

Ed Koebel presented a handout set of slides to explain the valuation results for GPP. The key findings include

- the actuarial return was 5.6% with the 10 year smoothing,
- the funding percentage is stable although it declined slightly, and
- the annual required contribution rate based on the 7.5% assumed interest rate is increasing to 14.95% of payroll, up from 14.11% in the prior valuation, or \$8.6 million.

Ed explained the valuation methodology and graphically showed the changes in the composition of the fund for the active, retired and vested members. The active population declined slightly while both the vested and the retired populations grew. The total liability for the retired population, which includes beneficiaries and disabled members, exceeds half of the fund. From an actuarial standpoint the largest impacts to the change in the fund in the last year were investment income and new entrants on the down side and the assumption for salary increases coupled with withdrawal activity on the upside. Investment income was negative based on the accounting statements that Ed used in the valuation. Robert Longfield later explained that the final investment result was actually positive and that results are often not known immediately at year end and may be finalized after the first of the year. Newly hired individuals generate a liability before contributions have been collected. Salaries for the City have not increased as much as the assumption for salary increase, thus providing a positive impact to the fund. Withdrawals of contributions have a positive impact because future monthly benefits are reduced while leaving the City contribution on behalf of the withdrawing employee in the fund.

Ed provided results of the valuation with a 7.25% interest rate assumption even though this was not included on the slide. His slides showed the results for an assumption of 7.5% and 7.0%. There was discussion about which interest rate assumption to use for the current and future time periods. The current environment suggests that the interest rate assumption should decrease. A gradual reduction in interest rate assumption was considered beginning with a change to 7.25% now and further reduction considered in the next valuation. Use of the 7.25% assumption produces a valuation result of 16.57% annual contribution or an estimated \$9.5M.

Erskine Oglesby made the motion to change the assumed interest rate to 7.25% and use the 16.57% for the City's contribution rate. Carl seconded the motion. The motion carried.

OPEB Fund Actuarial Valuation Results – Alisa Bennett, Cavanaugh Macdonald

Alisa Bennett presented the set of slides and results of the valuation for the OPEB Fund. This fund is still young with a larger funding gap; however, the key findings for this fund are:

- funding ratio is on an increasing trajectory improving from 20.1% in 2014 to 22.8% in 2016,

- the annual required contribution based on a 7.5% valuation assumption is increasing to 13.65% of payroll, up from the 13.38% of payroll in the prior valuation, or \$13.2 M, and
- the amortization period remains at 30 years open amortization.

Alisa noted that for this study, the results of the recent experience analysis for the Fire and Police employees were incorporated into the assumptions for valuation. Mortality assumptions were revised to reflect the improvement in longevity and this translates into increased funding liability. The active population remains the same as the prior valuation; however there has been an increase in the retired population that also affects the level of fund liability.

Currently, there is no asset smoothing in the market values for OPEB; therefore, gains and losses are absorbed when they occur. Alisa did mention that a new GASB standard will be implemented that applies to OPEB. The good news is that we are already using the required method of valuation proposed in the new standard. On the other hand, there may be a need to develop a funding policy for OPEB, similar to the requirement for GPP, due to disclosure requirements in the new GASB standard.

For this valuation, because OPEB has a longer term funding view than the GPP, the assumed investment rate of 7.5% is not troubling. A change could be considered once the new GASB standard is known and implemented. The annual required contribution rate is 13.65% or \$13.1M.

Steve Perry made the motion to accept the 13.65% based on the 7.5% assumed interest rate. Carl Levi seconded the motion. The motion carried.

Performance Review First Quarter 2016 – Gavion

Robert Longfield followed up on the actuarial report of market values to state that the actual results for 2015 was higher than Ed reported mainly due to timing of the reports Ed used versus the timing of reports from some asset categories. The GPP assets were \$263 M as compared to the actuarial outcome of \$258 M indicating that the GPP is in a better position. He indicated that the GPP performed better than most of the plans in Tennessee; however, we fell short of the more important gauge of the actuarial assumption. He also reminded the board that the time horizon from the investment manager perspective is much shorter than the time horizon for the actuarial valuation. The longer term view can assume higher rates than the current market conditions may indicate for the short term. The plan is to lower the actuarial expectation over time so that the long view and the short view are closer together.

For the short run, expect stock market volatility to continue. Drivers include concerns with China and the reduction in price and impact of oil, particularly as it impacts jobs. Another concern is number of potential federal rate changes that may occur in 2016.

The recommended portfolio allocation changes are intended to mitigate some of these concerns over the short term while minimizing risk. From the asset allocation study, the recommendation is the modify the portfolio allocation toward Portfolio 1 and reduce the equity exposure.

Erskine Oglesby made a motion to accept the recommendation to change the portfolio allocation toward Portfolio 1 from the study. Stacy Richardson seconded the motion. The motion passed unanimously.

Due to time, a brief review of investment performance was given. The summary material included separate summaries for GPP and for OPEB.

The quarter ending 3/31/2016 continued the volatility of the prior year. For the quarter, the GPP portfolio was up 0.1% but below the fund benchmark. Similarly the OPEB fund returned 1.1% but below the benchmark for that fund. Certain sectors performed very well while others performed poorly. Managers who had higher concentrations in healthcare and financial stocks, which characterizes most of the GPP equity managers, performed poorly. The small cap managers, international managers and the fixed income investments fared better in the quarter. The hedge funds had one of the worst quarters in their history in the portfolio. Robert Longfield noted that the disciplined approach to reallocation of portfolio assets paid off for GPP in the recent reallocation of a portion of hedge funds to other asset categories.

Herndon is still being monitored for performance in both the GPP and OPEB funds. There is interest in possible changes with the Aberdeen allocation in both GPP and OPEB because of anticipated new fund options that may be available soon. TerraCap Partners III, only in the GPP portfolio, has diversified its business by adding new properties outside of Florida and has increased occupancy rates in some of its acquired properties. Overall, moving the allocation of real estate funds from US only to an international focus is providing value to both the GPP and OPEB portfolio.

Core Fixed Income Manager Search - Gavion, LLC

Scott Arnwine presented the summary of the Core Fixed Income Search. The summary includes four managers for the board to consider – BlackRock, CS McKee, DoubleLine and Johnson. Several exhibits were presented comparing the attributes of each manager including their characteristics, country exposure, sector weights and quality breakdown. All four are good candidates; however, some may be a better fit for GPP and OPEB than others.

Robert Longfield asked for the board's preference as to bringing in candidates for interviews or to select a candidate today. The board asked Gavion to make a recommendation for the one that would be the best fit. In the final analysis, Gavion recommends Johnson for each portfolio with an initial allocation of \$25 M in GPP and \$2 M in OPEB for this asset manager.

Carl Levi made a motion to accept this recommendation and add Johnson to the fixed income managers in the GPP and OPEB portfolios at the indicated initial allocation. Erskine Oglesby seconded the motion. The motion carried.

Gavion will perform a Sources and Uses analysis and determine from which existing managers to reallocate assets to this manager. The target allocation will be the portfolio 1 from the asset allocation study. Gavion will present the details of the recommendation for reallocation at the next board meeting.

Report from Counsel

There was no additional report from counsel.

There being no other business, the meeting was adjourned by Daisy Madison.

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

**Meeting of Trustees
May 26, 2016**

PART I - PARTICIPANT SUMMARY

SUMMARY OF PENSION PLAN APPLICATIONS

Name	Department	Type	Option	Monthly Amount	Effective Date	DROP	Notes
Baggett, Joel T	Public Works	Normal	B	\$445.87	4/1/2016		vested
Blue, Tara	Human Services	Rule of 80	C	\$917.17	5/1/2016	\$12,060.69	
Chadwick, Doyal	Recreation - Golf	Imm Early	A	\$913.79	4/1/2016		vested
Finney, Charles C	General Services	Normal	B	\$788.32	5/1/2016		
Gordon, Danny R	General Government	Normal	B	\$1,152.68	3/1/2016	\$17,258.85	
Martin, James E	ECD	Normal	B	\$1,146.44	5/1/2016		
Newell, William H	Public Works	Rule of 80	B	\$1,704.18	5/1/2016		
Norris, Donald Lee	Public Works	Normal	B	\$2,041.01	3/1/2016		
Phillips, Gordon	Public Works	Normal	D	\$1,846.59	4/1/2016		
Samples, Constance E	Traffic operations	Normal	no	\$416.32	5/1/2016		vested
Woodby, David	Public Works	Imm Early	B	\$293.38	4/1/2016		
Young, Daniel	Public Works	Rule of 80	B	\$1,387.99	3/1/2016	\$58,543.80	

Count	12	\$13,053.74	\$87,863.34
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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
Steven Poole	B	2/18/2016
Mary Susan Poole	B	2/18/2016
Rachel Lee	B	2/15/2016
George Wilson	B	2/22/2016
JoAnn Craighead	B	2/29/2016
Maxine Renee Brown	C	3/21/2016
Gary Hilbert	A	4/26/2016
Margaret Curtis	A	5/13/2016

DISABILITY BENEFIT REPORT

NAME	TYPE	Employee Number	Insurance	Effective Date	Notes
			Benefit Amount		
Robert Seiler	not job related	66860		6/16/2015	

LUMP SUM DISTRIBUTIONS (FOR RATIFICATION - CHECKS PROCESSED)

Return of contributions		\$44,793.57		29	
NAME	Department	Employee Number	Refund Amount	Termination Date	Notes
Atchley, Roy	Public Works	77287	\$2.17	4/19/2016	
Banks, Anna S.	Police services	75971	\$253.75	11/5/2015	
Bomersheim, Brian	Public Works	75696	\$352.15	1/8/2016	
Brewer, Sarah A.	Library	71747	\$1,597.69	3/11/2016	
Brock, Donald	Public Works	68523	\$2,611.26	11/22/2015	
Burchfield, Kristina	YFD	76966	\$84.15	3/16/2016	
Caldwell, Ava C.	Finance	75713	\$253.01	11/27/2015	
Comstock, Kevin	Transportation	72176	\$3,037.53	3/17/2016	
Contreras, Susan	Police services	73547	\$759.62	1/28/2016	
Cosey, Marcus	Public Works	76706	\$100.91	2/1/2016	
Crawford, Sherri M.	Police services	74865	\$384.86	12/24/2015	
Cullis, Zachary	General Government	67331	\$5,766.45	12/10/2015	
Daniels, Angela	Human services	68015	\$3,054.37	1/6/2016	
Dean, Shawn R.	General Services	76700	\$39.84	12/11/2015	
Gordy, Kyle T.	Library	73048	\$1,505.48	11/20/2015	
Herbert, Rodney	Parks	70692	\$1,525.36	1/18/2016	
Higdon, Sherman	Public Works	69505	\$2,454.11	2/29/2016	
Hill, Rodney	Transportation	70995	\$1,463.02	4/25/2016	
May, Amanda	Public Works	75568	\$269.07	11/30/2015	
Osborne, Victor E.	Public Works	67390	\$2,591.39	12/3/2015	
Page, Brent A.	General Government	67328	\$5,599.34	11/2/2015	
Ray, Patricia	Purchasing	73325	\$986.45	3/4/2016	
Roark, Mary H.	Headstart	37762	\$894.80	8/11/1989	not refunded after termination
Smith Jr., Ronald S.	Public Works	71667	\$1,251.62	3/14/2016	
Smith, Alethia	Public Works	67721	\$2,399.13	1/15/2016	
Smith, Randy A.	Public Works	76603	\$53.34	11/20/2015	
Stephens, Sarah	Airport	na	\$3,656.91	12/18/2015	
Tansil, Thomas	General Government	74461	\$1,471.69	2/12/2016	
Whittle-Cagle, Erica	ECD	75994	\$374.10	3/24/2016	
Return of deceased retiree basis		Refund			
Name	RETIREE NAME	Date of Death	Amount		Notes
Mary M. Dapo	Betty Sue Berry	2/5/2016	\$314.83		
Charles Berry	Betty Sue Berry	2/5/2016	\$314.83		
James D. Berry II	Betty Sue Berry	2/5/2016	\$314.83		
Jamie S. Cannon	Betty Sue Berry	2/5/2016	\$314.83		
Sheila Austin	Betty Sue Berry	2/5/2016	\$314.83		
Yvonne Whitford	Betty Sue Berry	2/5/2016	\$314.83		
Jones, Sheila A	Carpenter, Nancy S.	3/15/2016	\$12,951.97		deceased employee refund contributions

PART II -- ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		124,974.50		FY2016
Cavanaugh Macdonald	792.00		3/31/2016	IRS determination letter
Cavanaugh Macdonald	16,563.00		3/31/2016	GPP valuation
IRS	2,500.00		3/31/2016	GPP determination letter fee
Miller & Martin	4,873.75		3/31/2016	Legal services-GPP determination ltr
Chambliss, Bahner, & Stophel, PC				Review of Special tax notice
Chattanooga Times Free Press	38.07		2/29/2016	Meeting ad 2/11/2016
Gavion, LLC	25,000.00		3/31/2016	Investment consulting services
First Tennessee Bank	32,146.88		3/31/2016	Administrative expense
City of Chattanooga Human Resources	45,000.00			FY2016 Administrative expense
COMPANY TOTAL	126,913.70	251,888.20		

Investment Managers -- Fees Paid

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	YTD		
Fiscal Year to date		394,370.05		FY2016
Chartwell	7,309.78		3/31/2016	Investment management fees
Herndon	31,889.37		3/31/2016	Investment management fees
Insight	19,813.36		3/31/2016	Investment management fees
Kennedy Capital Management	14,558.00		3/31/2016	Investment management fees
Patten & Patten	11,727.34		3/31/2016	Investment management fees
The London Company	14,601.00		3/31/2016	Investment management fees
Wedge Capital	24,795.58		3/31/2016	Investment management fees
MANAGER TOTAL	124,694.43	394,370.05		

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Prior quarter total		\$97.35 FY2016	
Delta Venture Partners II, LP	75,000.00	3/31/2016	distribution
SEC vs Dollar General Corp			distribution
Northern Trust	20,921.92	5/17/2016	class action litigation settlement
COMPANY TOTAL	95,921.92	96,019.27	

REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal Year to Date				
Fiscal Year to Date		10,618,000.00		FY2016
iShares Russell 1000 Growth Fund	700,000		5/16/2016	to pay benefits
iShares Russell 1000 Growth Fund	600,000		4/18/2016	Greenspring capital call
MISCELLANEOUS TOTAL	1,300,000.00	10,618,000.00		

REPORT OF ACCOUNT(S) PAID

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	QUARTER ENDING	PURPOSE
Fiscal Year to date				
Fiscal Year to date		80,068.81		FY2016
VOYA	11,568.43		7/31/2015	Long Term Disability (50%)
VOYA	11,288.47		9/30/2015	Long Term Disability (50%)
VOYA	11,524.06		10/31/2015	Long Term Disability (50%)
VOYA	11,488.70		11/30/2015	Long Term Disability (50%)
VOYA	11,488.70		12/31/2016	Long Term Disability (50%)
VOYA	11,492.41		1/31/2016	Long Term Disability (50%)
VOYA				Long Term Disability (50%)
TOTAL	68,850.77	68,850.77		

**CITY OF CHATTANOOGA OPEB TRUST
ADMINISTRATIVE ACTIONS**

PART II -- ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID THIS PERIOD	AMOUNT PAID FYTD	QUARTER ENDING	PURPOSE
Fiscal Year to Date		39,414.33		FY2016
Cavanaugh Macdonald	10,871.00		3/31/2016	OPEB valuation
Gavion, LLC	5,000.00		3/31/2016	Investment consulting services
First Tennessee	4,819.49		3/31/2016	Administrative Expense
COMPANY TOTAL	20,690.49	\$60,104.82		

Investment Managers -- Fees Paid

COMPANY	AMOUNT PAID THIS PERIOD	AMOUNT PAID FYTD	QUARTER ENDING	PURPOSE
Fiscal Year to Date		41,601.27		FY2016
Herndon	13,098.25		3/31/2016	Investment management fees
MANAGER TOTAL	13,098.25	41,601.27		


ACCOUNTS RECEIVABLE


COMPANY	AMOUNT PAID THIS PERIOD	AMOUNT PAID FYTD	QUARTER ENDING	PURPOSE
Prior quarter total		1,888,087.16		FY 2016 funding allocations
COMPANY TOTAL		1,888,087.16		

REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal year to date				
MISCELLANEOUS TOTAL	0.00	0.00		

APPROVED:


Chairman


Secretary