

MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

October 30, 2017

A special meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on October 30, 2017 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Stacy Richardson, Aon Miller, Carl Levi and Jeffrey Wilson. Others attending the meeting were Scott Arnwine, Gavion, LLC by phone; Steve McNally, First Tennessee Bank; and 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 Chair Daisy Madison.
A quorum was present at the beginning of the meeting.

Investment Manager Update – Insight Capital Research Management

Insight is a small cap growth manager in CA. They have been in the plan since 1999. The company is co-managed by the founder and a co-Portfolio Manager (co-pm). There have been several co-pms over the company's history. In the last month the co-pm that has been running the portfolio left the firm as did one other partner. The founder, Mr. Collins, is attempting to sell the firm. At this point in his life, he is not likely to be involved after the transaction and a sale could signal a complete change in the direction of the firm. The two people currently running the portfolio are new and unknown to Gavion. Gavion recommends that the GPP exit the firm.

Investment Manager Update – Herndon Capital Management

Herndon is a 15 year old firm that has been in the portfolio since 2013. The firm is 70% owned by an insurance company. In the last year, negotiations have been ongoing to buy out the insurance company and to become independent owners of the company themselves. Gavion was comfortable with that kind of management change. However, negotiations became tense and the firm will not be able to buy out the insurer and will not likely continue as a firm. Herndon manages assets of both the GPP and the OPEB funds.

Discussion

The board asked Scott if Gavion has any recommendation for replacement managers. Scott indicated that with the short time frame there is no recommendation yet for active manager replacement.

Scott did provide the recommendations for action on the portfolios.

- Recommend liquidating Insight and keeping \$3m in cash for upcoming capital needs while placing \$4M with Kennedy Capital Management, also a small cap manager. Gavion will search for another small cap manager for the future.
- Recommend liquidating Herndon in GPP and placing those assets in the Russell 1000 index. The GPP still has Wedge as an active large cap manager.
- Recommend liquidating Herndon in OPEB and placing those assets in the Russell 1000 index. There is no other active domestic equity manager in OPEB.

No losses are anticipated for the funds with these liquidations. In fact Herndon has performed very well in 3Q and both companies have been managing the money. Once the liquidations occur, the index funds are immediately accessible.

Gavion will work to detail the instructions to First TN to initiate the transaction with CAPIS to liquidate the funds, and then, when the transaction clears, move the money to the index funds.

Daisy Madison asked if we are the first to liquidate funds. Scott responded that as soon as Gavion found out, they had informed the City of the situation before it was announced to the public. Herndon will wind down its business; however, Insight is a going concern.


Scott posed the question that the board needs to address in the event of future developments like this. What can the board do now to prepare for the future in the event another liquidation decision arises? The board needs a plan of action to make the liquidation decision, but not necessarily the reinvestment decision, quickly to protect the GPP and OPEB funds. This question needs to be reviewed and addressed by the legal counsel.

Carl Levi made the motion to 1) liquidate the Insight holdings, place \$3M in cash and \$4M in Kennedy Capital Management, 2) liquidate Herndon holdings in the GPP fund and move the assets to the iShares Russell 1000 Growth Index, and 3) liquidate Herndon holdings in the OPEB fund and move the assets to the iShares Russell 1000 Growth Index. Aon Miller seconded the motion. The motion carried.

The meeting was adjourned by Daisy Madison.

APPROVED:


Chairman


Secretary

