

**MEETING OF THE TRUSTEES**

**CITY OF CHATTANOOGA GENERAL PENSION PLAN**

**February 21, 2008**

The regular meeting of the City of Chattanooga General Pension Plan was held February 21, 2008 at 8:45 a.m. in the J.B. Collins Conference Room. Trustees present were Daisy Madison, Bettye Lynn Smith, Katie Reinsmidt, Dan Johnson, and Carl Levi. Others attending the meeting were Jeff Claxton, City Benefits Office; Sharon Lea, City Personnel Office; Michael McMahan, Nelson, McMahan & Noblett; Teresa Hicks, First Tennessee Bank; Pat Cox, Consulting Services Group; and Scott Arnwine, Consulting Services Group.

The meeting was called to order by Chairwoman Daisy Madison. A quorum was present.

The minutes of the meeting held January 17, 2008 were approved.

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

**ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

<u>COMPANY</u>	<u>AMOUNT PAYABLE</u>		<u>SERVICES RENDERED</u>
	THIS PERIOD	YTD	
ALADDIN PRINTING & COPYING	\$4,366.82	\$4,366.82	Printing of General Pension Administrative Booklets (5,400 @ \$0.80867 each)
FIRST TENNESSEE BANK	\$24,076.63	\$73,287.39	Professional services for period ending December 31, 2007
NELSON, MCMAHAN & NOBLETT	\$2,495.50	\$4,025.50	Legal services for period July 2007 through January 2008.

**INVESTMENT MANAGERS**

NORTHERN TRUST CO.	\$7,091.07	\$21,627.55	Investment management fee for period Ending December 31, 2007
PATTEN & PATTEN, INC.	\$9,795.65	\$29,519.08	Investment management fee for period Ending December 31, 2007

MANAGER TOTAL	\$16,886.72	\$51,146.63	
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**ACCOUNTS RECEIVABLE**

<u>COMPANY</u>	<u>AMOUNT RECEIVED</u>		<u>PURPOSE</u>
	THIS PERIOD	YTD	
No Activity			

## REPORT OF ACCOUNT (S) PAID

MUTUAL OF OMAHA  
(Long-Term Disability)

\$19,014.52	\$75,773.78	Premiums for January and February 2008
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## MISCELLANEOUS ITEMS

### NAME

### TRANSACTION

No activity

### Annual Election of Officers

Ms. Madison opened the floor for nominations for Chair, Vice Chair, and Secretary. Ms. Madison currently holds Chair, Ms. Smith holds Vice Chair, and Mr. Levi holds Secretary. Mr. Johnson made motion to elect the current holders to fulfill a second term. Mr. Levi made a second. The Board unanimously agreed.

Ms. Madison addressed a letter that she received from NWQ referring to a distribution check for a pro-rata share that was re-issued to the Plan due to it being issued in the wrong amount initially. Teresa Hicks, from First Tennessee Bank, confirmed this amount.

### Fourth Quarter 2007 Performance Review - CSG

Mr. Cox presented the fourth quarter performance review for 2007 to the Board. For the allocations versus targets and their allowable ranges, Mr. Cox referred to the small cap range and how it was below the minimum range. The Board discussed lowering the minimum range for the small cap. Mr. McMahan suggested adjusting this range in the May 15, 2008 Board meeting when the investment policy manual is discussed. The Board authorized CSG to operate under the current target range until a decision is made in the May Board meeting. The total Fund has outperformed nicely and is up 9.9% for the year. Active performance and diversification helped in the portfolio. Mr. Cox gave a brief review of each manager's performance at the year end. Overall, the portfolio is doing well versus the indexes.

### Small Cap Manager Review

Mr. Arnwine gave a presentation on the Plan's two small cap managers, Insight Capital and Thomson Hortsman & Bryant. As a group, for the past five years, the small cap managers were the second top performing asset class on an absolute basis at 18.6%.

#### Insight Capital Research & Management

Insight Capital, a small cap growth manager, has been with the Plan since 1999. About thirty employees make up this firm. Their process is initially very quantitative and they use in-house analysis to choose stocks, moving on to fundamental research to get to know their companies. They typically hold about 40 holdings and sell companies if they do not make money. Mr. Arnwine next described Insight's performance highlights. Some highlights include its strategy outperforming the Russell 2000 Growth Index and being in the top of its peer group for the trailing 1-, 3-, 5-, 7, and 10-year periods, having top quartile performance in 2007, 2006, 2005, and 2003. Insight also outperformed the index in 27 of 28 rolling 3 year periods and was above median in 23 of 28 periods.

#### Thomson Hortsman & Bryant (THB)

Mr. Arnwine then gave a brief presentation on THB. The firm, founded in 1982, is a core small cap value manager. The portfolio is characterized by representation in five major economic sectors.

With more holdings than Insight, they have two strategies: micro-cap and small to mid-cap. Performance highlights include a strategy outperforming the Russell 2000 Index for the trailing 1-, 3-, and 7- year periods and top quartile performance in 2005, 2002, and 2001. THB also outperformed the index in 23 of 28 rolling 3 year periods and was above median in 24 of 28 periods.

#### Review of Active/Passive Management

Mr. Arnwine presented active versus passive management for the Board. He presented a brief overview of the two styles of management. Passive management, commonly referred to as indexing, is an investment management approach based on investing in exactly the same securities in the proportions as an index. You do have low operating expenses, but performance is dictated by the index and you have lack of control. Active management is an attempt to beat the market as measured by a particular benchmark or index. The aim is to outperform the benchmark, after fees. Advantages include expert analysis, potential to beat the benchmark, and defensive measures. Disadvantages include higher fees and operational expenses, manager mistakes, and style issues.

Mr. Arnwine then compared the Plan's managers to their benchmarks, which included large cap growth, large cap value, small cap growth, small cap core, international equity, and core fixed income.

#### Large Cap Value Manager Search

Mr. Cox presented the research advisory Board screening process in which the large cap value manager search was performed. He described the four levels that make up this process on a quantitative basis. From these levels, three managers were chosen to offer for the final review. They included C.S. McKee, Wedge, and Snow Capital. Then, Mr. Cox described the qualitative review for the three managers.

C.S. McKee strives to achieve superior results on a consistent basis through successful stock and industry selection and effective management of risk. Their philosophy places strong emphasis on value and improving earnings dynamics. C.S. McKee is attempting to identify those companies which are undervalued relative to the market, but are also demonstrating favorable growth expectations.

Wedge Capital's portfolio is designed to utilize the most productive measures of value and momentum on a sector-by-sector basis. It is also designed to improve upon the usual value approach tendency to buy too early and sell too early by incorporating appropriate momentum and contrarian factors. For each sector, Wedge has identified key combinations of value, momentum, and contrarian factors, which result in a portfolio having superior performance characteristics.

Snow Capital's philosophy is based on adding value by providing clients with a diversity of investment ideas. They believe that investors have been shielded from a broader spectrum of investment approaches. Their goal is to offer clients a mechanism to expand the opportunity set of investment ideas to enhance their efficient frontier and to boost overall portfolio performance. The firm employs a value approach, purchasing stocks with low relative P/E, strong balance sheets and low relative debt levels in comparison to their peer group. The focus is on stocks that are attractively priced on a proprietary quantitative screening process.

Mr. Cox stated that typically, two managers come in and make presentations to the Board so that decisions could be made. CSG recommended having Wedge and C.S. McKee appear for presentations. Mr. Johnson stated that he would rather see just Wedge come in, due to the apparent high performance. The Board agreed to interview Wedge in the March 20, 2008 Board meeting.

The next board meeting was scheduled for Thursday, March 20, 2008 at 8:45 a.m. in the J.B. Collins Conference Room.

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There being no further business, the meeting was adjourned.

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Chairman

APPROVED:

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Secretary