

**MEETING OF THE TRUSTEES**

**CITY OF CHATTANOOGA GENERAL PENSION PLAN**

**March 5, 2009**

The regular meeting of the City of Chattanooga General Pension Plan was held March 5, 2009 at 8:15 a.m. at the Chattanooga Hotel and Conference Center. Trustees present were Daisy Madison, Katie Reinsmidt, Bettye Lynn Smith, Dan Johnson, and Terry Lamb. Others attending the meeting were Pat Cox, Consulting Services Group; Scott Arnwine, Consulting Services Group; Yoon Lee, Consulting Services Group; Michael McMahan, City Attorney's Office; Valerie Malueg, City Attorney's Office; Jeff Claxton, City Benefits Office; Sharon Lea, City Personnel Office; and Steven McNally, First Tennessee Bank. Those making presentations for the Educational Seminar were William Bell, III, Westwood Distributors LLC; Leah Long and David Thompson, Wedge Capital Management; and Chuck Webb, Weaver Barksdale & Associates.

The meeting was called to order by Chairwoman Daisy Madison. A quorum was obtained upon Ms. Smith's arrival.

The minutes of the meeting held January 26, 2009 were approved upon Ms. Smith's ratification.

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

**PART I – ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

<u>COMPANY</u>	<u>AMOUNT PAYABLE</u>		<u>SERVICES RENDERED</u>
	THIS PERIOD	YTD	
CHATTANOOGAN	\$243.75	\$243.75	Deposit for Educational Seminar to be held on March 5, 2009
FIRST TENNESSEE BANK	\$25,507.00	\$79,072.09	Professional services for period ending December 31, 2008

<u>COMPANY</u>	<u>AMOUNT PAYABLE</u>		<u>SERVICES RENDERED</u>
	THIS PERIOD	YTD	
THREE HD	\$7,020.00	\$7,020.00	Hosting fees for September 2005 through September 2009

**INVESTMENT MANAGERS**

DUFF & PHELPS	\$10,965.00	\$45,814.00	Investment management expense for period ending December 31, 2008.
INSIGHT	\$10,793.00	\$42,872.50	Investment management expense for period ending December 31, 2008.
NWQ	\$21,991.63	\$77,231.45	Investment management expense for period ending December 31, 2008.
PATTEN & PATTEN	\$6,998.27	\$24,265.40	Investment management expense for period ending December 31, 2008.

SMH CAPITAL	\$4,296.97	\$18,097.98	Investment management expense for period ending December 31, 2008.
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MANAGER TOTAL	\$55,044.87	\$208,281.33	
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**ACCOUNTS RECEIVABLE**

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

**REPORT OF ACCOUNT (S) PAID**

MUTUAL OF OMAHA (Long-Term Disability)	\$9,578.20	\$76,896.62	Long Term Disability (50%) – January 09'
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**MISCELLANEOUS ITEMS**

<u>NAME</u>	<u>TRANSACTION</u>
No Activity	

Administrative Board Meeting

Mr. Claxton presented the administrative actions for Board approval. All items were approved, pending Ms. Smith's ratification. Ms. Smith approved all items upon her arrival.

"Roles & Responsibilities in Times Like This" - William Bell, III

Mr. Bell started his presentation by saluting the Trustees of the City of Chattanooga General Pension Plan for taking on their roles and responsibilities. He also stated that the Board utilizes and adheres to an excellent policy statement. Several minutes were spent discussing his past and present expertise with several investment/advisory committees and trustee experience. He stated that you need to follow your policy, change it if you need to, listen to your consultant, and talk about new opportunities. He suggested that the Board never diminish the Plan's level of fiduciary oversight. He also intensified that diversification within your manager base and asset allocation was very important. The due diligence and dependence on consultants and managers is more important now than ever. He suggested that you should not replace the judgment and knowledge of your consultant with your own opinions.

"Equity & Fixed Income Environments and Outlooks"

Mr. Cox introduced Chuck Webb, CIO of Weaver Barksdale, to speak about the fixed income market. He then introduced David Thompson, CFO, and Leah Long, Executive Vice President of Wedge Capital, to speak about the current market conditions and equity performance.

Wedge Capital Management L.L.P. – David Thompson & Leah Long

Wedge Capital, an independent value shop, was founded in 1984 to provide consistent, disciplined value products. They manage \$7.0 billion in assets for clients spanning 46 states and 5 countries. Ms. Long described the 2008 global performance and described that there was no where to hide and that everyone went down in sync. Mr. Thompson stated that diversification and fundamental analysis are an investor's best friend in long term investing. Today, the rolling ten year annualized average of domestic U.S. Large-Cap stocks is -0.7%, the lowest point ever.

Weaver Barksdale & Associates – Chuck Webb

Mr. Webb spoke to the Board about the economy and bond market. He stated that we were one month away from being in the worst recession since the depression in the 1930's. He described our current market in one word, "chaotic". He stated that the equity market usually has a lot less tension, but it has been just as bad. Mr. Webb started to describe what went wrong and stated that monetary policy got out of whack. He compared the Fed Funds Target Taylor Rule (where the Fed Funds should be) to the Fed Funds Target and stated that they were out of sync on two different occasions. The Fed Funds Target stayed too low for too long, the latest happening after September 11, 2001. Real Interest Rates (Fed Funds less inflation) became negative. When this happens, you can borrow money and have an automatic property. He stated that commodity prices were driven up because it was essentially free money, which eventually caused a global crash. He stated that stocks generally bottom out before the economy does (1/2 to 2/3 through a recession), so if stocks were to bottom today then the recession would last through the end of 2009.

Review of 2008/2009 Performance – Scott Arnwine

Mr. Arnwine spent a few minutes describing the fourth quarter for 2008. The total fund was down 15.3% for the quarter and 29.3% for the year. In January, the fund was down 3.7% for the month with the composite down 5.4%. Mr. Arnwine stated that in late November and early December a reversal started where some stocks took an upward turn and some managers started to outperform their benchmarks. In January, every manager in the portfolio outperformed their benchmarks with the exception of the high yield manager, Seix. The two hedge fund managers, Pointer and Ironwood, dramatically outperformed their benchmarks. Mr. Cox stated that they would come back to the Board with a recommendation for a replacement for THB since they are closing their SMID cap trust. He also stated that for 2008, the fund landed in the bottom quartile and underperformed by about 4% compared to the median of the universe. He stated that as of the end of December, the fund's equity allocation was trending downward due to benefit payment obligations and fixed income allocations.

Asset Allocation – Pat Cox

Mr. Cox discussed the purpose and methodology for the asset allocation update. He discussed the efficient frontier for all the asset classes that the portfolio is invested in. He stated that as of January, the current rate of return is 7.75%. With the proposed allocation, CSG would like to achieve this same rate of return or better with less volatility in the portfolio. He then explained the proposed allocation to the Board, which was within constraints in the investment policy manual. He stated that the model will allow the Plan to look where other asset classes are, to have a higher probability of achieving returns, and to lower risk in the overall portfolio. The probability of achieving the target return of 7.75% will go from 46.8% to 56.6% with the proposed allocation.

The recommendations for the General Pension Plan asset reallocation were to take a total of \$10 million from the two index funds, take Brandywine down from 6% to 5%, take the hedge fund portfolio down from 17% to 15%, and take the international equity position down from 13.9% to 10% and to move the allocations to an investment grade fixed income manager. The Board decided to have CSG bring in a couple of fixed income managers to the next Board meeting to interview. Ms. Madison made motion to approve the reallocation of assets for the General Pension Plan and Ms. Smith made a second. The Board unanimously agreed.

The recommendations for the OPEB asset reallocation were to add to equities over two to three months, add to fixed income, and take cash down to about 9%.

The next board meeting was scheduled for April 30, 2009 at 8:45 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

Meeting of Trustees  
City of Chattanooga General Pension Plan  
March 5, 2009  
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Chairman

APPROVED:

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Secretary