

MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

June 4, 2008

The regular meeting rescheduled from May 22, 2008 of the City of Chattanooga General Pension Plan was held June 4, 2008 at 2:00 p.m. in the J.B. Collins Conference Room. Trustees present were Daisy Madison, Dan Johnson, Terry Lamb, and Carl Levi. Others attending the meeting were Jeff Claxton, City Benefits Office; Sharon Lea, City Personnel Office; Ken Fritz, 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 April 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	
CITY OF CHATTANOOGA	\$26,000.00	\$51,000	Reimbursement of administrative costs to the City of Chattanooga for fiscal year 2008
EFI ACTUARIES	\$18,576.36	\$18,988.86	Preparation of 1/1/2008 Actuarial Valuation Report
FIRST TENNESSEE BANK	\$25,577.23	\$98,864.62	Professional services for period ending March 31, 2008

INVESTMENT MANAGERS

DUFF & PHELPS	\$17,638.00	\$55,882.00	Investment management expense for period ending March 31, 2008
ICRM	\$15,292.99	\$69,090.10	Investment management expense for period ending March 31, 2008
PATTEN & PATTEN, INC.	\$8,977.49	\$38,496.57	Investment management expense for period ending March 31, 2008
SMH CAPITAL	\$7,320.88	\$26,623.06	Investment management expense for period ending March 31, 2008

MANAGER TOTAL	\$49,229.36	\$190,091.73	
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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 \$9,470.12 \$94,722.73 Premium for April 2008
(Long-Term Disability)

MISCELLANEOUS ITEMS

<u>NAME</u>	<u>TRANSACTION</u>
No activity	

FY09 Administrative Budget

Ms. Madison presented the FY09 Administrative Budget to the Board. She noted the one major increase was the personnel reimbursement costs from \$26,000 to \$40,000. This was needed due to the fact that Personnel had been devoting more time than in the past to retirement and benefits administration. This extra work used to be done by the custodian. After reviewing the budget, Mr. Johnson made motion to approve and Mr. Lamb made a second. The board unanimously approved.

Annual Manager Review – SMH Capital Advisors, Inc.

Stephen Cooke, with SMH Capital Advisors, introduced himself to the Board as one of the firm's Portfolio Managers. He described the investment process; which primarily focuses on the balance sheet of the business. It involves three phases: the propriety balance sheet analysis model, the adequate return/risk test, and the reduction of systematic risk. He stated that the portfolio underperformed the index in 2007 due to a higher exposure to the homebuilding sector. Three names were currently in default, which accounts for about 6.0% of the portfolio.

Mr. Cooke spent some time discussing the difficult time that the majority of homebuilders were having in the market. *Tousa* had a non-recourse joint venture in Florida, one of the hardest hit markets. They fell in default and realized the value of the land was less than the borrowed amount of money to buy the venture. They decided to give the land back to the bank. The bank lenders filed lawsuits against the company to move the venture back on to the books of *Tousa*. This added \$500 M of debt to *Tousa* pushing the bonds owned by SMH Capital into default. Mr. Cooke stated that the firm was trying to get this debt reversed through litigation. In another situation, *Kimball Hill*, management contrarily raised \$100 M of new capital from outside investment as a cushion to make sure they could withstand the downturn they were potentially heading into. Instead, the company bought new land.

The Board has been with SMH since September, 2004. Mr. Cox confirmed that the Plan was currently in the trough of the credit cycle with SMH. CSG would continue to watch their performance.

High Yield Fixed Income Review, Quarterly Performance Review, April Update - CSG

Mr. Cox brought the Board up-to-date on high yield. Mr. Johnson stated that now was the wrong time to pull out of the portfolio. The Board has two high yield allocations: SMH and SEIX. Mr. Cox stated that when high yield spreads to treasuries are large, it represents an opportunity to increase the allocation in the high yield. When spreads are tight, you will have a neutral or underweight position. The Plan's allowable range for high yield is 0.0% to 10.0%, and we have a 4.0% position; with approximately 2.0% allocated to each manager. Mr. Cox referred the Board to a chart that highlighted annualized returns after high yield spreads that exceeded 700 basis points for periods beginning in September 2000, June 2001, and June 2002. CSG recommended that the Board stay the course with SMH.

Mr. Arnwine briefly summarized the first quarter review. He confirmed that the first quarter was difficult. For the trailing 3 and 5 years, the Plan was up 9.1% and 12.4% respectively. Looking at performance results in the various asset classes compared to their relative objectives for the trailing 5 years, the Plan performed at or above the benchmarks. Mr. Arnwine addressed the small cap allocation being below the minimum allocation of 10.0%. CSG stated that they were currently not uncomfortable with this number, due to the fact that they favored large cap. But this allocation needs to be addressed because it is

outside of the minimum. For the quarter, the total fund was down 6.8%, slightly below the index. For April, the total fund was up 3.5%, making the YTD down 3.5%.

Investment Policy Update

Mr. Cox brought forth the small cap minimum weighting in the investment policy statement. He stated that CSG felt that the 10.0% minimum weight should be changed to 5.0% to bring the Plan into compliance. Mr. Lamb made motion to change the minimum weight and Mr. Levi made a second. The Board unanimously agreed.

Approval of Statement of Investment Objectives – OPEB Trust

Mr. Cox briefly reviewed the statement of investment objectives for the OPEB Trust. This document had been recirculated and distributed to all Board members since the last Board meeting. He stated that this portfolio would be a 65/35 mix, and hedge funds would not be included. Mr. Lamb made motion to approve the Statement of Investment Objectives as Amended to bring the International Equity Maximum allocation to 20.0%. Mr. Johnson made a second. The Board unanimously agreed.

The next board meeting was scheduled for Thursday, June 19, 2008 at 8:45 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

APPROVED:

Secretary

Chairman