

**MEETING OF THE TRUSTEES**  
**CITY OF CHATTANOOGA GENERAL PENSION PLAN**

May 25, 2017

The regular scheduled meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on February 16, 2017 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Aon Miller, Katie Reinsmidt, Stacy Richardson, Carl Levi and Steve Perry. Others attending the meeting were Valerie Malueg, City Attorney's Office; Robert Longfield and Scott Arnwine, Gavion, LLC; Steve McNally, First Tennessee Bank; Ed Koebel, Cavanaugh Macdonald; 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.

**Approval of Minutes**

*Stacy Richardson made a motion to approve the minutes of the February 16, 2017 meeting. Katie Reinsmidt seconded the motion. The minutes of the February 16, 2017 meeting were unanimously approved.*

**Administrative Actions**

Cheryl Powell presented the Administrative actions for the previous quarter. Certain transactions were highlighted for the board including an update on the IRS determination letter, the Greenspring capital call, the Medley capital call and the Medley Opportunity fund amendments to the partnership agreement. Cheryl also mentioned that the contract with Cavanaugh Macdonald ends on 12/31/2017.

*Carl Levi made a motion to approve the administrative actions. Katie Reinsmidt seconded the motion. The administrative actions were unanimously approved.*

*Katie Reinsmidt made a motion to approve the transfer of funds for the capital calls of Greenspring and Medley. Aon Miller seconded the motion. The transfer of funds was unanimously approved.*

*Steve Perry made a motion to approve the fund amendments to the Medley Opportunity fund partnership agreement. Aon Miller seconded the motion. The amendments to the partnership agreement were unanimously approved.*

Cheryl presented the proposed FY2018 budget for the board's consideration. The valuation for OPEB will be conducted in the next cycle. There is a need for an update to the experience study in 2018. Additional funds were added to the actuarial consulting line item for GASB and other services. Bank fees were increased by a percentage to reflect growth in the funds and number of members in the plan. Legal fees were presented at \$7,500; however Valerie Malueg suggested increasing the amount to \$10,000 since the IRS determination letter is still outstanding. The LTD premium is not increasing so those costs are stable. All other line items remain the same.

*Carl Levi made a motion to approve the FY2018 budget with amendment for legal fees. Aon Miller seconded the motion. The FY2018 budget was unanimously approved.*

**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. He prefaced his remarks by showing the fund history since Cavanaugh Macdonald has been the actuarial firm. The slide shows the year

and various key fund statistics – the discount rate, the market returns, the unfunded accrued liability and the funding ratio. The slide also shows the employer contribution rate and employer contributions made to the plan during each plan year. The results show that even though the plan has become more conservative, the funding ratios and unfunded liabilities have not changed dramatically.

The key findings for the current year valuation include

- the actuarial return declined to 4.44% with the 10 year smoothing compared to the market return of 7.04% (actuarially the plan is still recognizing the loss of \$9m in 2008 through the next valuation),
- the funding percentage declined to 82.4% based on the 7.25% discount rate, and
- the annual required contribution rate based on the 7.25% assumed interest rate is increasing to 17.99% of payroll, up from 16.57% in the prior valuation, or \$10.7 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 increased slightly while, the vested population remains stable and the retired population 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 negative impacts to the change in the fund in the last year were investment income, the increase in service retirements and the longevity of the retirees receiving benefits. The salary increases were not as high as anticipated in the assumptions giving a positive impact to the plan. Newly hired individuals generate a liability before contributions have been collected. Withdrawals of contributions tend to have a positive impact because future monthly benefits are reduced while leaving the City contribution on behalf of the withdrawing employee in the fund. This year the withdrawal activity was less than anticipated and had a negative impact to the fund.

Ed provided the results for the cost of the plan using both a 7.25% interest rate assumption and 7.0% in anticipation of another reduction in the interest rate assumption as discussed last year. Based on the 7.25% assumption, the annual required contribution rate is 17.99% or \$10.7 million. The cost based on a reduction in assumed interest rate of 7.0% is a higher contribution rate of 19.58% contribution rate or \$11.6 million. The funding ratio using the 7.0% interest rate assumption would drop to 80.3% due to the requirement of the higher contributions.

There was a short discussion about the path toward a lower discount rate and the conversation from the 2016 valuation presentation. The consideration is the real rate of return and price inflation compared to what the achievable investment return may be. Additionally, there was a brief discussion about the expenses relative to the budget and the source of that information. First Tennessee provides the annual report containing the data; however, some expenses are reflected in different line items on their report.

Ed suggested restating the breakdown in the valuation rate as inflation of 2.75% and the real rate of return of 4.25%. This will have the effect of projecting salaries at a lower rate. Ed will redo the draft report with these changes and the 7.0% assumed rate and finalize the numbers.

***Steve Perry made a motion to adopt 7.0% for the actuarial interest rate assumption. Carl Levi seconded the motion. The change to the assumed interest rate was unanimously approved.***

#### **Performance Review First Quarter 2017 – Gavion**

Robert Longfield stated that the performance was strong on an absolute basis. Returns were up in the quarter for GPP at 3.8% for the quarter and 9.5% for the year. Returns were also up for OPEB at 4.6% for the quarter and 10.6% for the year.

One of the drivers of the improved results in the equity markets is the post-election bounce in the markets and it is not clear how long this effect will last. The Trump administration focus early on was regulatory change or rollback with potential market impacts. The technology sector is the leading performer. Some political events around the world have impacted market movements. On the other hand, US GDP is less than expected and the market rallied. The question is, given the price of the market, whether investment managers should anticipate a sell-off in the near term. It is not clear what the impact of Trump's promises and congressional action will be, whether the Fed will raise interest rates, or whether there will be wage gains. Housing growth and home

ownership is improving and could boost the economy. International markets have stabilized. In all of this, the question is what can be done to further diversify the portfolio, particularly the stock market risk, to capture potential areas of gain.

Scott Arnwine discussed the performance of the two funds. Reviewing page 2 of the GPP investment performance report, the portfolio of \$278M ends 1Q with a 3.8% return and a 1Y return of 9.5%. Relative to the actuarial assumptions, the trailing 5 year performance is just below the actuarial assumption while the trailing three year falls short.

The return for equities in the GPP fund is 5.8% with London and Kennedy below benchmarks. International equities are performing at the benchmark. Hedge funds exceeded the benchmark. Scott pointed out that the money weighted returns for private real estate investments have been good. He noted that the timing of the reporting from these investments is not the same as Gavion's reporting to the board so there is a lag in recording the results for this report. TerraCap, a small niche real estate manager, continues to post good results, largely due to two properties sold with substantial gains. Their rate of return is above 15%. The growth in the Alternative Investments has pushed the investments above the 35% maximum. Fixed income returns were 2.3% for 1Q and 4.4% for 1Y and overall above the benchmark due to international, high yield and emerging market debt results. Medley and Golden Tree have not yet reported for the quarter.

London Company, a small cap investor, has been struggling and the results are being watched closely. It is likely that there will be a recommended replacement candidate at the next meeting unless their results improve. Patten and Patten is also receiving closer scrutiny. The firm is transitioning with their mix of assets affecting performance. There is no action anticipated on this firm at this time.

The returns for OPEB fund are 4.6% for 1Q and 10.6% for 1Y. The OPEB fund has higher equity weight than GPP and a larger cash balance.

Gavion provided a page of recommended changes to the OPEB portfolio including no change to equity allocation, make allocation changes within total fixed and make two changes within the alternative investments.

- Within total fixed the recommended changes are increasing core fixed to 12% and decreasing international fixed to 5%, a small increase to high yield to 3% and decreased the private debt allocation to 0%. Gavion recommends adding Johnson to the OPEB portfolio with a 5% allocation.
- Within alternative investments, the recommendation is to increase private equity to 5% and decrease real estate to 5%.

***Carl Levi made a motion to implement Gavion's recommended OPEB portfolio allocation changes and add Johnson to the portfolio at a 5% allocation. Katie Reinsmidt seconded the motion. The motion carried.***

Robert also mentioned the possibility of adding a Greenspring fund to the OPEB portfolio later this year. This addition may require a change to the Investment Policy allocation table for OPEB.

Daisy Madison addressed the OPEB valuation rate. She indicated that the OPEB valuation occurs every two years, with the next valuation in 2018, using the current discount rate of 7.5%. She asked CMC to calculate the employer contribution at 7.25%. Ed Koebel stated that the employer contribution rate was determined as 13.65% at 7.5%, but rises to 13.93% using 7.25%. Daisy would like the board to agree to change in discount rate to 7.25%.

***Katie Reinsmidt made the motion to change the OPEB actuarial discount rate to 7.25%. Aon Miller seconded the motion. The motion carried.***

### **Election of Vice Chair**

Due to the election of Erskine Oglesby to City Council, the office of Vice Chair is now vacated. Daisy Madison asked if anyone would volunteer to serve in that capacity. Aon Miller offered to fill the position of Vice Chair; however, this leaves the position of Secretary open. Katie Reinsmidt volunteered to serve as Secretary of the board.

*Carl Levi made a motion to accept the change in elected officers with Aon Miller as Vice Chair and Katie Reinsmidt as Secretary. Steve Perry seconded the motion. The change in officers was unanimously approved.*

### **Report from Counsel**

There was nothing to report.

### **Other Business**

No other business.

There being no other business, *Carl Levi made a motion to adjourn the meeting that was seconded by Katie Reinsmidt. The meeting was adjourned by Daisy Madison.*

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

Meeting of Trustees  
May 25, 2017

**PART I - PARTICIPANT SUMMARY**

**SUMMARY OF PENSION PLAN APPLICATIONS**

Name	Department	Type	Option	Monthly Amount	Effective Date	DROP	Notes
Benning, Dewayne	Public Works	normal	no	\$555.08	5/1/2017		
Birdsong, Willie	Public Works	normal	no	\$1,489.17	4/1/2017	\$38,520.89	
Claiborne, George	Public Works	Rule of 80	C	\$1,536.98	5/1/2017	\$21,132.82	
Clark, Patricia	Public Works	Immed. Early	no	\$651.56	5/1/2017		
Fisher, Carolyn C	Public Works	normal	no	\$1,300.89	4/1/2017		
Foy, Mamie T	Human Services	normal	no	\$1,441.79	4/1/2017	\$62,160.12	
Freeman, Moses	General Government	normal	B	\$208.68	5/1/2017		
Hakeem, Ysusf	General Government	normal	B	\$195.64	5/1/2017		
Haynes, Gregory L	RPA	Rule of 80	B	\$2,915.56	3/1/2017		
Hood, David	ECD	normal	A	\$637.15	5/1/2017		
Jamison, Donald	Police Services	normal	no	\$993.40	3/1/2017		
Moore, Iantha J	Public Works	normal	no	\$1,186.55	3/1/2017		
Pinckney, Jacqueline	County 911	Immed. Early	no	\$833.89	5/1/2017		
Richards, Michael	Public Works	normal	B	\$1,463.81	5/1/2017		
Shelley, Deborah	Public Works	normal	no	\$1,218.56	5/1/2017		
Trim, Sheryl L	Library	normal	no	\$1,228.31	4/1/2017	\$50,154.96	

Count	16	\$17,857.02	\$171,968.79
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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
Johnny Thomas	B	4/4/2017

**DISABILITY BENEFIT REPORT**

NAME	TYPE	Employee Number	Insurance	Effective Date	Notes
			Benefit Amount		
Kathy Willis	non job related	43968		2/8/2017	vested
Kenya Jackson	non job related	61039		2/22/2017	vested
Tracy Brown	non job related	67128		3/11/2017	vested

**LUMP SUM DISTRIBUTIONS (FOR RATIFICATION - CHECKS PROCESSED)**

Return of contributions		\$52,768.75		29	
NAME	Department	Employee Number	Refund Amount	Termination Date	Notes
Altstatt, Michael	Airport	na	\$3,284.50	4/25/2017	
Anderson, Charles	Public Works	77906	\$34.59	9/23/2016	
Bolanos Granados, Mirlen	Family Justice center	76598	\$663.75	1/11/2017	
Bowen, Johnnie	Public Works	72534	\$1,439.06	1/10/2017	
Brigandi, Shane	Public Works	77165	\$592.70	1/17/2017	
Carmody, David	Mayor Office	71016	\$6,782.99	12/31/2016	
Daniel, Jonah	Public Works	74706	\$1,564.28	1/23/2017	
Dockery, Todd	Human Resources	71446	\$7,238.93	3/10/2017	
Dominguez, Marielys	Library	73727	\$1,277.29	11/12/2016	
Doss, Alan D	YFD	72862	\$1,573.79	1/27/2017	
Efiom, Alexander	Fire training	75372	\$158.63	9/29/2016	
Elmore, Britton	Public Works	72175	\$2,935.34	3/2/2017	
Elmore, Logan	Public Works	75027	\$1,048.63	7/22/2016	
Helms, Kendal	Human Resources	72677	\$2,988.07	4/25/2017	
Hether, Jared	General services	77027	\$616.72	12/15/2016	
Hunter, Jeffery	Public Works	61562	\$4,374.67	5/3/2017	vested
Jones, Terry L	Public Works	76478	\$900.22	5/5/2017	
Mallard, Roman	Public Works	77286	\$217.63	9/20/2016	
Martin, Amy	Mayor Office	74886	\$976.00	11/17/2016	
Mitchell, Kelley	Library	78553	\$63.95	2/13/2017	
Morris, Amy	RPA	74153	\$755.87	10/13/2016	
Mowery, Tyler	Public Works	77327	\$327.24	12/16/2016	
Muller, Janina	City Attorney office	66888	\$4,487.25	1/23/2017	
Norton, Jennifer	Public Works	71771	\$1,990.75	4/26/2017	
Roderick, Bonnie E	City Attorney office	71565	\$4,993.00	3/24/2017	
Tate, David	Public Works	77169	\$585.68	2/15/2017	
Thomas, Andrea	Human services	73132	\$45.52	9/2/2016	
Winkler, John	Public Works	77904	\$161.48	12/20/2016	
Yates, Brian S.	Public Works	76231	\$690.22	10/12/2016	

**Return of deceased retiree basis**

Name	RETIREE NAME	Date of Death	Refund Amount	Notes
Marcus Burnette	Lyles Burnette	3/3/2017	\$2,376.19	

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		278,565.27		FY2016
Fiscal Year to Date		241,910.88		FY2017
Cavanaugh Macdonald				IRS determination letter
Cavanaugh Macdonald	13,710.00		3/31/2017	GPP valuation
Cavanaugh Macdonald				Implicit Subsidy
Cavanaugh Macdonald				GPP GASB 67 & 68
IRS				GPP determination letter fee
Miller & Martin				Legal services-GPP determination ltr
Chambliss, Bahner, & Stophel, PC				Review of Special tax notice
Chattanooga Times Free Press	42.30		2/13/2017	Meeting ad 2/9/2017
Gavion, LLC	25,000.00		3/31/2017	Investment consulting services
First Tennessee Bank	36,339.37		3/31/2017	Administrative expense
City of Chattanooga Human Resources	45,000.00		6/30/2017	Administrative expense annual
<b>COMPANY TOTAL</b>	<b>120,091.67</b>	<b>241,910.88</b>		

***Investment Managers -- Fees Paid***

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	YTD		
Fiscal Year to date		523,428.32		FY2016
Fiscal Year to date		302,651.61		FY2017
Chartwell	7,800.84		3/31/2017	Investment management fees
Herndon	15,500.09		3/31/2017	Investment management fees
Insight	15,430.07		3/31/2017	Investment management fees
Kennedy Capital Management	14,131.00		3/31/2017	Investment management fees
Patten & Patten	11,482.91		3/31/2017	Investment management fees
The London Company	11,852.00		3/31/2017	Investment management fees
Wedge Capital	29,273.26		3/31/2017	Investment management fees
<b>MANAGER TOTAL</b>	<b>105,470.17</b>	<b>302,651.61</b>		

**ACCOUNTS RECEIVABLE**

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Fiscal Year		\$96,019.27	FY2016
Prior quarter total		\$175,000.00	FY2017
Delta Venture Partners II, LP			distribution
DTC Diversified Partners III	\$150,000.00	2/21/2017	distribution
SEC vs Dollar General Corp			distribution
Northern Trust			class action litigation settlement
<b>COMPANY TOTAL</b>	<b>150,000.00</b>	<b>325,000.00</b>	

**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal Year to Date		10,618,000.00		FY2016
Fiscal Year to Date		27,250,000.00		FY2017
iShares Russell 1000 Growth Fund				to pay benefits
iShares Russell 1000 Growth Fund				to pay benefits
iShares Russell 1000 Growth Fund	750,000		4/17/2017	to pay benefits April
iShares Russell 1000 Growth Fund	450,000		4/17/2017	Greenspring capital call
iShares Russell 1000 Growth Fund	1,250,000		3/13/2017	Medley capital call
<b>MISCELLANEOUS TOTAL</b>	<b>2,450,000.00</b>	<b>27,250,000.00</b>		

**REPORT OF ACCOUNT(S) PAID**

COMPANY	AMOUNT PAID		MONTH	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to date		137,530.86		FY2016
Fiscal Year to date		118,947.92		FY2017
VOYA	11,776.45		12/1/2016	Long Term Disability (50%)
VOYA	11,988.33		1/1/2017	Long Term Disability (50%)
VOYA	12,128.53		2/1/2017	Long Term Disability (50%)
VOYA	12,128.53		3/1/2017	Long Term Disability (50%)
VOYA	12,144.80		4/1/2017	Long Term Disability (50%)
<b>TOTAL</b>	<b>60,166.64</b>	<b>118,947.92</b>		



**CITY OF CHATTANOOGA OPEB TRUST  
ADMINISTRATIVE ACTIONS**

**PART II -- ACCOUNT SUMMARY**

**ACCOUNTS PAYABLE**

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		46,345.33		FY2016
Fiscal Year to Date		41,446.73		FY2017
Cavanaugh Macdonald Cavanaugh Macdonald Gavion, LLC	5,000.00		3/31/2017	OPEB valuation OPEB GASB 74 Investment consulting services
First Tennessee	3,947.56		3/31/2017	Administrative Expense
<b>COMPANY TOTAL</b>	<b>8,947.56</b>	<b>\$41,446.73</b>		

***Investment Managers -- Fees Paid***

COMPANY	AMOUNT PAID		QUARTER ENDING	PURPOSE
	THIS PERIOD	FYTD		
Fiscal Year to Date		55,341.51		FY2016
Fiscal Year to Date		28,060.30		FY2017
Herndon	15,141.86		3/31/2017	Investment management fees
<b>MANAGER TOTAL</b>	<b>15,141.86</b>	<b>28,060.30</b>		

**ACCOUNTS RECEIVABLE**


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

**REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS**

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal year to date				
<b>MISCELLANEOUS TOTAL</b>	<b>0.00</b>	<b>0.00</b>		

APPROVED:

  
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Chairman

  
\_\_\_\_\_  
Secretary