RETIREMENT PLAN

FOR

CHICAGO TRANSIT AUTHORITY EMPLOYEES

The Special Meeting of the Retirement Allowance Committee was held on Monday, November 1, 1982, at 8:30 A.M., in the Board Room, Room 734, Merchandise Mart. The following were in attendance:

Mr. W. Ashley	Mr. A. Kasmer
Mr. R. Fleming	Mr. P. Kole
Mr. J. Gallagher	Mr. D. Perk

Mr. A. Kemp, alternate for Mr. C. Hall, Mr. H. Hegarty, alternate for Mr. E. Flowers, Mr. L. Morris, alternate for Mr. I. Thomas. Neither Mr. J. Weatherspoon nor his alternate was present. Mrs. A. Curtis, Messrs. R. Bartkowicz, S. Bianchi and L. Brown were present. Messrs. D. Lemm, G. Nagle and Ms. C. Cox were present. Messrs. W. Leszinske, E. Hamilton, R. Keigher and Mrs. K. Ford of Continental Bank were present. Messrs. R. Harrell and W. Lowry of Lowry, Raclin, Harrell and Howerdd were present. Mr. R. Burke, the Plan Attorney, was present. Mr. B. Scholz, pensioner, was also present.

The Chairman called the meeting to order at 9:05 A.M. and apologized for the delay.

The Secretary then stated that the purpose of this meeting which had been called by the Chairman was to give the Committee an explanation of the Growth Screen Fund. The Secretary then briefly reviewed the purpose of the Screen Fund which is to have a reservoir of funds available to adjust the debt/equity ratio of the overall Fund.

The Chairman then called on Mr. Leszinske of Continental Bank. Mr. Leszinske stated that the Trustee had several concerns with respect to the Screen Fund. Mr. Leszinske then pointed out the size of the Screen Fund and pointed out that while this fund had been operational for three years, it had no named manager, As a result of this, the Trustee has assumed the role of manager and was charging a fee for managing the Fund.

The Chairman then asked several questions about how the Screen Fund is managed. Mr. Leszinske responded that he thought Mr. Lowry and Mr. Harrell generate the information to manage this Fund from a computer generated buy and sell program. He then pointed out that Johnson, Lane, an Atlanta brokerage house, executes the trades and then informs the Trustee of the trades. Mr. Leszinske stated that he thought this was unusual and it looked like Johnson, Lane was, in fact, the manager of the Screen Fund.

Mr. Leszinske then informed the Committee that the Trustee wanted to change the current relationship. He outlined several alternatives to the Committee which the Trustee felt to be acceptable. The first alternative would be to appoint Mr. Lowry or Johnson, Lane as the investment manager. Other alternatives would be to convert the Screen Fund to an Index Fund which would mirror the S&P 500.

The Chairman then asked Mr. Leszinske to verify why the Trustee only thought it knew how the Screen Fund was managed. Mr. Leszinske stated that the Trustee had nothing written that could prove that Johnson, Lane received instructions from Mr. Lowry, but the Trustee was reasonably certain that that was the way the Fund was managed. Mr. Leszinske stated that questions should be referred to

Mr. Lowry. The Chairman asked if it was unusual for the Trustee not to have a written agreement or be aware of how the investment information flows and Mr. Leszinske agreed.

The Chairman then stated that the Screen Fund is a concern for him and that this meeting was called so that all Committee Members could fully understand the Screen Fund. The Chairman further stated that after we have complete knowledge of the Fund, then the Committee could make a judgment as to whether the Screen Fund should be continued in its present operational role or some alternative chosen. The Chairman then asked if the Screen Fund had always been a $90 million fund. Mr. Hamilton stated that a year ago it was around $45 to $50 million dollars.

Several Committee Members asked for clarification of the Screen Fund. The Chairman asked Mr. Kole to review the Screen Fund since he was on the Committee when the Screen Fund was initiated. Mr. Kole reviewed the purposes of the Fund and pointed out that other clients of the Lowry organization used this approach. The Chairman asked Mr. Kole who managed the Fund. Mr. Kole responded that the Fund was managed in effect by Mr. Lowry. The Chairman then asked other questions about the Screen Fund but Mr. Kole stated that those should be asked of Mr. Lowry. The Chairman wanted to know who evaluated the performance of this Fund. Mr. Kole stated that several people including the Trustee evaluated the performance. In response to the Chairman's question as to who decides how large the Screen Fund should be, Mr. Kole responded that the decision had been delegated to Mr. Harrell.

A discussion ensued between Mr. Leszinske, Mr. Nagle and several Committee Members as to how the Screen Fund had grown to $90 million. Mostly, the Fund had received transfers of money from other accounts. Only once had there been a withdrawal and that was from dividend income. The Chairman then cautioned all the Committee Members that this was not the time to make a decision. Instead, the Committee should continue to gather information as to how this particular fund is managed.

At the request of the Chairman, Mr. Nagle reviewed a written summary of the performance of the Screen Fund and the commissions generated by this fund. (A copy is attached to these minutes). At the request of the Chairman, Mr. Leszinske also reviewed commissions. Mr. Leszinske stated that the commission per share had been negotiated from 12-1/2 to 8-1/2 cents and finally to 5-1/2 cents per share. However, cents per share is only one component of any transaction; the other is the price per share. Mr. Leszinske pointed out that while this commission was low, there was no agreement between the Trustee and Johnson, Lane for Johnson, Lane to receive all the trades for the Screen Fund based on low commissions.

The Chairman asked Mr. Leszinske to explain why Johnson, Lane was used exclusively. Mr. Leszinske responded that Mr. Harrell had stated that Johnson, Lane pooled the orders from similarly managed funds and then executed the trades. According to Mr. Harrell, this eliminates competition in the market place. The Chairman then asked if this was a legitimate reason and Mr. Leszinske responded no. Mr. Leszinske responded to the Chairman's question of who should do the trading by stating that it would be appropriate to have the

Trustee execute the trades. Mr. Leszinske further stated that either Mr. Lowry or Johnson, Lane should be made the Investment Manager.. of the Screen Fund.

The Chairman asked for clarification as to why this had not been done. The Secretary and Mr. Hamilton reviewed how previous members of the Trustee had been involved in establishing the Screen Fund. Mr. Leszinske stated that the former Committee Members were also aware of the Screen Fund's management. Mr. Perk asked for further clarification of the issues. The Secretary responded that former Committee members, of the Trustee, and the Lowry organization had initiated this Fund. The Chairman stated again that this was not the time to make a decision but to gather all the facts.

A discussion then ensued between the Chairman, Mr. Perk and Mr. Keigher concerning commissions and the turnover in the Screen Fund. Mr. Keigher further stated that if the turnover does support a large rate of return beyond expectations, there's nothing wrong with turnover. He then stated that if the turnover doesn't support a large rate of return, the turnover doesn't mean anything. The Chairman then asked for a short recess.

The Chairman reconvened the meeting at 10:08 A.M. and asked Mr. Lowry and Mr. Harrell into the room. The Chairman then stated that since there were new Committee Members, many of them were unfamiliar with the Screen Fund. He then stated that the Committee is familiar with the results achieved by the Lowry organization and is impressed and satisfied with these results. He stated that the Committee has been looking at the various aspects of the Screen Fund with the Trustee in an attempt to inform the Committee of this Fund. The

Chairman then asked Mr. Lowry and Mr. Harrell not to infer anything from questions that might be asked of them since the Committee was only trying to obtain information on the Screen Fund.

Mr. Harrell then thanked the Chairman for the opportunity to explain the Screen Fund. Mr. Harrell pointed out that his relationship with the Committee has lasted six or seven years. Mr. Harrell then briefly informed the Committee of Mr. Lowry's background and involvement with the Screen Fund.

Mr. Lowry stated that he had some slides to show the Committee which would show the genesis and background of the Retirement Plan's investment policy, where that policy is today, and explain the relationship between the equity and the debt managers. Mr. Lowry explained various investment returns to the Committee indicating their real rates of return. He further explained to the Committee that his company is only interested in real rates of return. He then explained why the variable debt to equity ratio is important and why point to point measurements were meaningless in evaluating performance. He then explained that the market was currently signaling the end of an era where low yield stocks are outperforming high yield stocks. So, clients ask what happens when the market gets to 1.5, 1.6, 1.7 or twice book? Do we fire managers and then go back to them later? Mr. Lowry stated that this is awkward to do. He then showed what his company had achieved with the Southern Baptist Annuity Retirement Fund and pointed out the similarities with the CTA Retirement Plan. Mr. Lowry then demonstrated to the Committee that the Southern Baptist Fund was the single most successful large pension fund in the United States for the last eight years.

Mr. Lowry then reviewed for the Committee a comparison between the two Screen Funds. He pointed out that the Income Fund numbers had not been included in the performance analysis already distributed to the Committee. Mr. Lowry stated that these were not valid comparisons because they do not dollar-weight the rates of return. Mr. Lowry again pointed out that point to point measurements were meaningless because they depend on the points that are chosen.

Mr. Lowry then reviewed the stock market for the Committee. He observed that the market provides the only real rates of return on investments. However, the market achieves gains in very sudden bursts and when least expected. He pointed out that the two largest market gains were in the middle of the Depression and the day Pearl Harbor was bombed. Mr. Lowry pointed out that while we've had an excellent record in timing both the market on price to book ratio and the sub-sector these are no-win situations, because the market may not become interested in the sub-sector for a number of years. Mr. Lowry observed that 10 years ago large capitalization high quality growth stocks would have looked attractive because they were performing well, but over the 10 year period all the performance came from small companies. He pointed out that the market acts opposite of what appears to be logical and rational. Thus, by dollar weighting the sub-sector that is out of favor the dollar weighted rate of return will be better than the average rate of return.

Mr. Lowry explained that the Screen Fund raises cash and switches styles when needed. It has 110 per cent stock turnover because statistically all it does is avoid losing. The decision rules in the

Screen Fund center on companies whose dividends, book value and earnings momentum are moving upward against the rest of the market. These rules do not allow for poor performing companies. Mr. Lowry observed that we will miss golden opportunities, but that others have tried to make these opportunities and have lost money.

Mr. Lowry then summarized his comments for the Committee. He stated that the Committee has an automatic debt/equity decision rule that no one can override and that there is a vehicle to change equity exposure without having to hire and fire managers. Mr. Lowry then stated that over the next 36 to 60 months the best performance would probably come from Price's Growth Fund and then the Screen Fund.

The Chairman thanked Mr. Lowry for giving his presentation. He stated that both he and the Committee were pleased with the overall investment results. The Chairman then stated that at other meetings there had been questions concerning the Screen Fund. The Chairman then asked the Trustee if there were any questions concerning the Screen Fund.

Mr. Leszinske asked Mr. Lowry to explain the relationship with Johnson, Lane. Mr. Lowry responded that his company originates the trade and places the original order with Johnson, Lane, Space, Smith and Company, a brokerage firm in Atlanta. They take the order and place it with either Pershing; Donaldson, Luffkin; Goldman Sachs; Merrill Lynch; or Bear Sterns. Clients have a choice of either having the brokerage execute trades at the standard, institutional New York Stock Exchange rate with a 40% commission recovery or use a reduced commission rate. Either program is acceptable. Mr. Lowry also stated that if other competent block brokers could be found or if they could be found at lower rates he would be just as interested. Mr. Lowry stated that there was an operational relationship with his organization and Johnson, Lane.

The Chairman then asked who advised Johnson, Lane? Mr. Lowry responded that he did. Mr. Lowry further explained that the recommendations came through his registered investment advisory division based upon a computer program. The Chairman aaked for an explanation of the computer program. Mr. Lowry explained that Dr. William Breen of Northwestern University developed the program. The decision rules center around stocks ranked B+ or higher by Standard & Poor or stocks of the 50 largest banks, insurance companies, finance companies or industrial companies that are unranked by Standard & Poor. The Screen Fund cannot buy stocks whose price to book ratio is above a moving average norm of other stocks with the same rate of return on equity. It cannot buy stocks that cut the dividend. It cannot buy stocks with a greater than given percentage decline in earnings. It is a survivor type portfolio. The portfolio is designed by using a particular quality growth sector earnings momentum on top of all the other criteria. Over long periods of time, the computer screen had delivered about 200 basis points better than the 50th percentile of the databank.

The Chairman then asked for a mechanical explanation of how Johnson, Lane received instructions. Mr. Lowry responded that the printout comes to his office and he in turn gives it to Johnson, Lane. Mr. Lowry further explained that the printout is delivered weekly.

Mr. Richard Burke, the Plan Attorney, asked several questions concerning various organizational relationships. Mr. Lowry stated that the parent company is William W. Lowry & Associates. It owns all the stock in both William Whitehead Lowry, registered investment advisor, and Lowry, Raclin, Harrell & Howerdd. Lowry, Raclin, Harrell & Howerdd is the consultant to the registered investment advisory division. The advisor prepares the quarterly report and sells it to the consulting firm for $500 in conformance with SEC regulations. Mr. Lowry further explained that all the partners own stock in William W. Lowry & Associates. Mr. Lowry also explained that the only fees they receive from Johnson, Lane are for the consultant service. He also explained that the CTA Retirement Plan is paying cash for this service. A discussion ensued between Mr. Lowry, Mr. Leszinske and the Chairman about the 5.5 cents per share commission and a soft dollar arrangement with Johnson, Lane. A further discussion ensued between Mr. Lowry, Mr. Leszinske, Mr. Nagle and the Plan Attorney concerning execution of the trades.

Mr. Harrell commented that Johnson, Lane has exclusive marketing rights for these computer programs and the trade-off is that they also manage our clients without charging a management fee. Mr. Harrell stated that they do charge a management fee to those customers who are not clients of the Lowry organization.

The Chairman then asked about the Screen Fund's turnover. Mr. Lowry responded by stating that the model looks at whether the stock meets or does not meet the criteria. As long as the stock meets the criteria, it's held. Over long periods of time this system will beat a subjective system by about 200 basis points compounded annually which it has. Mr. Lowry further explained that the turnover would be

100% in and 100% out annually or more. Mr. Lowry also stated that professors have been arguing for years about turnover and that there is no correlation between turnover and performance.

In response to a question from the Chairman, Mr. Lowry stated several purposes of the Screen Fund. The primary purpose is to be able to dollar load to any sub-sector of the market for the next three to five years without impacting any of the outside managers' activity, The Chairman then asked since the money managers were hired based on their long term performance, did not the absence of a long term performance record impact upon why the present Screen Fund should be in existence. Mr. Lowry responded that the Screen Fund's investment approach is totally different from that used by other money managers.

Mr. Lowry then commented on execution by stating that executions were based on the computer program. Stocks are bought or sold only when the computer dictates. There is no waiting or shopping the market. Mr. Kole added that since Johnson, Lane purchased or sold securities and then notified the Trustee that the execution had improved. A discussion ensued between Mr. Kole, Mr. Leszinske and Mr. Lowry as to whether or not this was execution or notification.

In response to a question from the Chairman, Mr. Lowry stated that since $90 million of the $500 million was in the Screen Fund, that was about the correct amount since it equalled 30% of the equities. Most Lowry clients maintained this percentage. This is needed to be able to accommodate taking the market from book value all the way to 1.5 times book without impacting the outside managers. However, when the market goes to 1.6 times book, then cash will have to be raised with the outside managers. Mr. Nagle, Mr. Harrell and Mr. Lowry then discussed the shift in debt/equity ratio that occurred in January, 1981. Mr. Nagle asked why funds had to be taken from other managers.

Mr. Harrell stated that those sub-sectors of the market in income were at their peak and it looked more advisable to reduce those positions than the growth sub-sector. Mr. Harrell further stated that the Screen Fund did not have enough to accomplish the swing. Mr. Lowry further explained a 60% growth profile was called for. He then emphasized that dollar-weighting the sub-sector was quite important. Mr. Lowry further stated that both goals for the Screen Fund could be accomplished but not at the same percentage previously maintained. Mr. Lowry then recommended to the Committee a more mechanical sub-sector weighting rule comparable to the mechanical price to book rule.

Mr. Lowry then explained that the computer program could set up 4 screens - growth, income, emerging growth, and semicyclical. In response to a question from Mr. Keigher, Mr. Lowry stated that the program balances based on the directions given to it. Mr. Lowry then explained that the reversal technique uses the 12 month moving average, the 36 month moving average, the 60 month moving average and an intrinsic value score to determine when to shift back to income.

The Chairman then summarized the two objectives of the Screen Fund as having high performance over a long period of time and the flexibility of moving in and out of the market. He then asked if there were other alternatives to achieve the same two objectives, Mr. Lowry responded that he was not aware of any.

Both the Chairman and Mr. Perk asked about the relationship with the Lowry organization as one of a consultant and a money manager. Mr. Lowry stated that the Committee does have both relationships, but only pays for the consultant. The Chairman then asked if the Committee should be concerned about that and Mr. Lowry responded only if two fees are charged. Mr. Lowry further stated that the Screen Fund was invented because his clients wanted it.

The Plan Attorney then asked representatives of the Trustee if someone else but Mr. Lowry could serve as Investment Manager. Mr. Leszinske responded that perhaps Johnson, Lane could. In response to a question from Mr. Hamilton, Mr. Lowry stated that Johnson, Lane acts as a fiduciary and a registered investment advisor to those who are not customers of the Lowry organization.

Mr, Burke then stated some of his concerns. He explained that he is very sensitive to the conflict position and did not think that the Committee should expose themselves to that. He further stated that since the Trustee did not know how the Fund operated, they could not effectively counsel the Committee. Mr. Burke then asked if, in the Committee's judgment there is a need for this type of fund, who can they go to to get this outside of the Lowry organization. If the answer is no one, then they have to weigh the conflict between maintaining the Fund versus structuring the program in some different way. Mr. Lowry responded that there was no conflict, but if this Fund makes the Committee function less effectively then it should be eliminated.

Mr. Lowry then pointed out that the Committee would then have to decide where to allocate these funds. This would result in higher fees than currently exist. In addition, there is the problem of adjusting the ratios. Mr. Lowry stated that he views Dr. Breen's portfolio as having the same fiduciary responsibility as the other managers. Mr. Lowry suggested that the Committee may want to place the orders directly. He then also suggested that Mr. Harrell or the Committee look for alternatives over the next 90 days. He stated that he would support any alternatives that relieved the Committee's discomfort. Mr. Harrell stated that one possible alternative might be to have another named fiduciary serve as investment manager other than Continental Bank. Mr. Harrell also stated that the fee that would be charged would be comparable to Continental's current fee.

The Chairman stated that if there is an appearance of impropriety but the Committee is satisfied that this is the right thing to do for the Fund, as long as it is properly documented, he can concur with it. The Chairman further stated that the Committee wants to achieve the best results for this Fund.

A discussion then ensued between Mr. Lowry, Mr. Burke, Mr. Perk and the Chairman about using or not using Johnson, Lane. Mr. Burke then reiterated his position on the appearance of a conflict of interest. Mr. Lowry responded that there were a number of alternatives to be considered and that he felt that both his organization and the Trustee should report back to the Committee. Mr. Kole suggested that it might be well to start with documenting current procedures. The Chairman agreed.

The Chairman then summed up some questions that the study should focus on, namely, why is it necessary to have $90 million in the Screen Fund. What are the mechanical aspects to the specific broker and the relationship between the consultant and the manager?

What is the performance measurement used for the Screen Fund? The Chairman then directed the Secretary's Office to forward these questions to Mr. Harrell so he could respond to them.

The Chairman then stated that it is important that any doubts be totally removed. Mr. Lowry concurred. Mr. Lowry then stated that depending on the activity the Committee is willing to endure either the Trustee or the Lowry organization can decide what activity level to bring to the Committee. He emphasized that this is the Committee's decision. Mr. Lowry stated that managers have been reluctant to switch styles which is why the Screen Fund was formed.

Mr. Kasmer asked if the stock sold in the Screen Fund was always sold at a certain price. Mr. Lowry replied that limits were placed on both the purchase and sale of securities. Mr. Kole referred the Committee to the Campbell Soup article and stated that they are a Lowry client and also have a Screen Fund.

Mr. Lowry briefly covered the reasons why the Committee might want to consider a Covered Option program. He demonstrated that such a program could result in a 3 or 4 per cent annualized rate of return. Mr. Lowry suggested that the Committee might want to spend an entire meeting on this subject.

The Chairman thanked Mr. Lowry and Mr. Harrell for coming. The Chairman stated that it was important to clear up any misunderstandings and to obtain an understanding of the historical background of the Screen Fund.

There being no further business, on a motion by Mr. Kole, seconded by Mr. Hegarty, the Committee unanimously agreed to adjourn at 12:44 P.M.

W. A. Ashley

SECRETARY
RETIREMENT ALLOWANCE COMMITTEE

Paul J. Fole

for CHAIRMAN
RETIREMENT ALLOWANCE COMMITTEE

DATED NOVEMBER 15, 1982