A G E N D A

FOR THE 466TH RETIREMENT MEETING OF OCTOBER 19, 1987

1. Meeting will be called to order at 9:30 A.M., Steamboat Room, 14th floor, Holiday Inn Mart Plaza.

2. Approval of the Minutes of the 465th Meeting held September 21, 1987.

3. Report by Trustee.

4. Announcement of deaths reported since the last Meeting.

5. Presentation of Survivorship Options.

6. Announcement of Pre-Retirement Surviving Spouse Allowances.

7. Presentation of new retirement applications for approval.

    a.) Nelson Sanders -- retroactive to 3-1-87.

8. Employees on Disability Retirement re-examined.

9. Presentation of Refunds of Contributions to be paid October 31, 1987.

10. Presentation of Bills and Remittances.

11. Death Benefits for approval.

12. Report by Secretary of Deposits, Disbursements and Investments.

    a.) Report on payment on the Certificate of Indebtedness for 1981 Employer Contributions.

13. Unfinished Business.

    a.) Discussion of the issue of a South Africa investment restriction on the International Equity Allocation.

    b.) Pension office salary proposal.

14. New Business

a.) Thirteen month period to repay refund of contributions and interest expires - recommendation that the following be granted a 30-day grace period.

Name & Badge No.	13 Month Period Expires	Entered Service Date	Amount Due
Ronald R. Wardlow 1021	11/06/87	03/19/69	$12,793.65
Evert Holmes 21147	10/30/87	02/27/70	$13,824.29

b.) Assignment of new pension seniority date for Jerome Wheaton. Thirty day extension to repay refund of $2,736.60 expired 10-13-87. New seniority date for pension purposes only - August 13, 1986.

c.) Review of proposed pension earnings and contribution computation of Loid Brown's part-time service to the Automotive & Equipment Painters and Processing Union Local 396.

d.) Discussion of Piedmont Realty Advisor's proposed real estate manager contract.

15. Adjournment.

RETIREMENT PLAN

FOR

CHICAGO TRANSIT AUTHORITY EMPLOYEES

The 466th Meeting of the Retirement Allowance Committee was held Monday, October 19, 1987 at 9:30 A.M., in the Lake House, 14th floor, Holiday Inn Mart Plaza. The following Committee members were in attendance:

Mr. E. Flowers	Mr. W. Clark
Mr. E. Gresham	Mr. G. Nagle
Mr. I. Thomas	Mr. D. Perk
	Ms. V. Wendorf

Alternates H. Williams, who sat in W. Black's stead, L. Brown who sat in Mr. Kasmer's stead, and W. Buetow who sat in J. Hughes stead were present. Alternates L. Morris and H. Hegarty were present. Messrs. J. Mullen, R. Pirovano and Ms. P. Williams of the Pension Office staff were present. Ms. S. Luthy of the Harris Trust and Savings Bank was present. Mr. R. Burke, Plan Attorney was present. Mr. B. Scholz, pensioner representative was also present.

The Chairman called the Meeting to order at 9:43 A.M.

On the call for approval of the Minutes of the 465th Meeting, held September 21, 1987, Mr. Brown made a motion for approval, Mr. Williams seconded the motion, and the Committee unanimously approved.

Ms. S. Luthy of the Harris Trust and Savings Bank presented the Trustee Report noting the activity in the market for the last 30 days and year to date.

The Secretary made the Announcement of Deaths since the last meeting, as per the attached list.

The Secretary presented seven (7) Survivorship Options for approval, noting the option for Gene A. Ross is pending receipt of proof of age for himself and his spouse and marriage certificate. On a motion by Mr. Brown, seconded by Mr. Perk, the Committee unanimously approved the Survivorship Options.

The Secretary announced that there were two (2) Pre-Retirement Surviving Spouse Allowances to report at this meeting.

The Secretary presented four (4) Retirement Applications for approval; including an application for Nelson Sanders, which included a request for a retroactive retirement to March 1, 1987. He turned this issue over to Mr. R. Pirovano for explanation to the Committee. Mr. Pirovano noted that he received a memo from T. Czech, Manager of the Personnel Administration Department, indicating that Mr. Sanders was not advised that he was eligible for a disability allowance at that time and requested retroactivity to 3/1/87 pending a medical report. The Secretary also noted that the disability application for Jessie Howard was subject to medical evaluation. On a motion by Mr. Brown, seconded by Mr. Clark, the Committee unanimously approved the retirement applications presented including the request for a retroactive disability to 3/1/87 for Nelson Sanders.

The Secretary informed the Committee that four (4) employees who are presently receiving Disability Retirement benefits were examined or had their files reviewed, including one individual who was reinstated from Disability Pension.

The Secretary presented fourteen (14) Refunds of Contributions, totaling $75,490.37 for approval. On a motion by Mr. Clark, seconded by Mr. Perk, the Committee unanimously approved the Refunds of Contributions to be paid October 31, 1987.

The Secretary presented for approval one (1) Chicago Transit Authority Bill, totaling $37,745.82, twenty-one (21) Operating Bills, totaling $31,066.73; ten (10) Remittances, totaling $434,077.07; and the 3rd month, third quarter 1987 FIT Deposit, totaling $188,718.25. On a motion by Mr. Brown, seconded by Mr. Williams, the Committee unanimously approved the Bills and Remittances, totaling $691,607.87 to be paid October 31, 1987.

The Secretary presented for approval twenty-five (25) Death Benefits, totaling $59,459.98. On a motion by Mr. Brown, seconded by Mr. Perk, the Committee unanimously approved payment of the Death Benefits, as per the attached list.

The Secretary turned the Committee's attention to the Report on Deposits, Disbursements and Investments in the

Trustee Summary and noted that the September rate of return for the Fund was -1.52% and the market value of the total assets of the Plan as of September 30 was $861,341,344.22.

Mr. J. Mullen then presented a report on the Certificate of Indebtedness noting that the regular September monthly payment from the Authority had been received on September 30, amounting to $705,829.38 leaving a balance of $2,117,488.17.

The Secretary then turned the Committee's attention to a travel request by Mr. Perk to attend the International Foundation of Employee Benefit Plan's Conference in San Francisco on December 4 - 9, 1987. On a motion by Mr. Brown, seconded by Mr. Williams, the Committee unanimously approved the travel request of Mr. Perk to attend the conference in San Francisco. The Secretary then brought to the Committee's attention a seminar on real estate investment strategies sponsored by the Utah State Retirement Board which will be held November 7 - 11 in Chicago. On a motion by Ms. Wendorf, seconded by Mr. Williams, the Committee unanimously approved the payment of the $395.00 registration fee for those interested in attending the seminar. The Chairman asked that they contact the Secretary. In response to a question from Mr. Clark in regard to the asset allocation model, the Secretary informed the Committee that the current allocation of the Fund was 60.6% equity, 30.9% real estate/bonds, 8.5% cash. He further noted that the Boston Co. accounts had a total value of $63.2 million at September 30, 1987 versus a beginning allocation of $68.5 million on August 21, 1987. Therefore, the asset allocation model had produced a loss of approximately $5.3 million inception to date. Mr. Mullen noted that the daily mark to market numbers were not available just yet as the on line system with the Harris Bank was still being installed, but would be ready soon. The Secretary indicated that the Boston Company was preparing a report on the asset allocation model performance results from inception through October 31st which would be available for the next meeting. Mr. Clark requested that a report on the asset allocation model be prepared each month with the most up to date information available as of the monthly meeting date. The Secretary indicated that he would do so.

Mr. Clark expressed a concern that he would like to know what our consultants, the Wellesley Group, think about the current market and suggested to the Secretary that he obtain those views periodically. The Secretary indicated that there had not been any contact with the Wellesley Group because he didn't anticipate that there would be any recommendation for a change in investment policy. He then suggested that both the Wellesley Group and the Boston Company come in for a special meeting. The Chairman directed that such a meeting be scheduled.

The Chairman turned the Committee's attention to the discussion of the issue of a South Africa investment restriction on the International Equity Allocation. The Secretary indicated that he distributed reports on the South Africa divestment question, some of which represented background material that the Committee reviewed 1 1/2 years ago, and some which were just recently received from the Wellesley Group. An important report on the impact of a South Africa free restriction on International Equity returns was still forthcoming from the Wellesley Group. In reference to a report entitled Financial Implications of South African Divestment by Grossman and Sharpe appearing in the Financial Analyst Journal/July - August, 1986, Mr. Perk asked counsel to address the section identified "Legal Issues and "Personal Liability" found on page 35. The Plan Attorney stated that the thrust of the statements in the report alluded to by Mr. Perk under the section entitled "Legal Issues" are the guiding principles enunciated by the courts in this state. The referenced excerpt is therefore hereby made a part of these minutes:

> Private-sector pension plans have been regulated by the Employee Retirement Income Security Act (ERISA) since 1974. It requires of trustees that (among other things) they administer funds solely in the interest of the beneficiaries and for the exclusive purpose of providing benefits to participants and their beneficiaries. This means trustees may not be guided by the interest of a third party. In 1981, the Supreme Court of the United States reaffirmed the "exclusive purpose" provision of ERISA. In a case involving Amax Coal Company and the United Mine Workers, the Court said:
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> > "Under the principles of equity, a trustee bears an unwavering duty of complete loyalty to the beneficiary of the trust, to the exclusion of the interests of all other parties."

> Although this interpretation of "solely in the interest of" and "exclusive purpose" arose from a case not involving a social investment issue, it makes it clear that trustees may not attempt to serve two masters with fiduciary funds, whether the second be the welfare of black South Africans, a cleaner environment or a safer world.
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> ERISA also requires that trustees diversify the assets of the plan so as to minimize the risk of large losses, "unless under the circumstances it is clearly prudent not to do so." The portfolio concentrations that tend to result from divestment are contrary to the spirit of ERISA's diversification language. To concentrate a plan's assets in order to serve an excluded purpose would seem doubly imprudent.
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> Although public pension funds are not covered by ERISA, a number of state legislatures have adopted ERISA's "solely in the interest of," "exclusive purpose" and diversification language verbatim in legislation governing their public pension systems. More generally, under the common trust law from which ERISA's fiduciary standards evolved, public pension fund and most other trustees operate under the same standard of care. This concept was reinforced in New Hampshire, where the State Supreme Court ruled that the New Hampshire Retirement System is a trust fund rather than a state agency and, as such, its trustees are subject to ERISA-like standards.

The Plan Attorney further noted that the key issue involved is what the data suggests in regard to the rate of return on a South Africa Free International Equity Portfolio versus a non-restricted portfolio. If the data shows that the South Africa Free portfolio rate of return is appreciably less, then there may be cause for concern about satisfying fiduciary duty.

This item was then held over to the next meeting pending receipt of further information from the Wellesley Group.

The Chairman turned the Committee's attention to the Pension office salary proposal noting that it was his understanding that the subcommittee was not able to meet and, therefore, as any recommendation from that subcommittee would have to come for review by the full Committee, then the proposal should be discussed now by the full Committee. Mr. Perk suggested that any adjustments be made within the context of the "L" levels established by the Authority. The Plan Attorney stated that it is the Committee's responsibility to provide for the administration of the Plan including the employment of the personnel necessary to carry out that objective. The Chairman stated that it was the collective bargaining agreement of 1983 which placed the employees of the Secretary's Office on leave of absence and as such they come entirely under the jurisdiction of this Committee. Mr. Clark stated that he felt that the Committee should not just look to the CTA's payroll grades, but should look to the job descriptions of the people in the Pension Department and compare those as much as possible to the jobs of other people in the pension field. The Plan Attorney further explained that as the Secretary's Office is subject to the direction of the Committee then it follows that the Committee has the responsibility to evaluate their performance and set their salary levels. Mr. Clark suggested that a subcommittee be formed to evaluate the personnel in the Pension Office. The Chairman then assigned a new subcommittee consisting of himself, Mr. Clark, Mr. Perk and Mr. Brown to meet on this issue.

The Secretary then informed the Committee that the thirteen-month repayment of contributions period had expired for Ronald Wardlow and Evert Holmes and recommended that they be granted a 30-day grace period. On a motion by Mr. Brown, seconded by Mr. Williams, the Committee unanimously approved to grant the above named employees a 30 day extension on the re-payment of their refund of contributions.

The Secretary informed the Committee that the thirty-day extension to repay his refund of $2,736.60 expired October 13, 1987 for Mr. Jerome Wheaton. The Secretary recommended that this employee be assigned a new pension seniority date of August 13, 1986 for pension purposes only. On a motion by Mr. Williams, seconded by Mr. Brown, the Committee unanimously approved to assign Jerome Wheaton a new seniority date of August 13, 1986 under Rule 21.

The Chairman turned the Committee's attention to Item 14(c): Review of proposed pension earnings and contribution computation of Loid Brown's part-time service to the Automotive and Equipment Painters and Processing Union - Local 396. The Secretary explained that Mr. Brown does part-time work for the above named union and has done so since June of 1972. He further noted that it was his recommendation with concurrance of the Plan Attorney that Mr. Brown be allowed to convert his time spent working part-time for the union into pension earnings for the purpose of computing his pension benefits. The Secretary further noted that a computation of the earnings and contribution due thereon had been made and was available for review and was calculated in the same manner as was done for the part-time employees of Locals 241 and 308. On a motion by Mr. Thomas, seconded by Mr. Perk, the Committee approved the converting of Mr. Brown's part-time earnings for the union to pension earnings to be calculated under the same procedure as that which is in place for part-time Local 241 and 308 union officials. The vote for approval was unanimous with the exception of Loid Brown who abstained from voting on this issue.

The Chairman turned the Committee's attention to the discussion of Piedmont Realty Advisor's proposed real estate manager contract. The Secretary explained that the proposal includes a change in the fee schedule on the direct real estate properties from the current 1% acquisition fee for the first 12 months and .5% on market value per year thereafter to a 1% acquisition fee for the first 12 months and .5% on original cost per year thereafter plus an incentive fee of 10% of the cash flow after the Plan receives a cumulative 10% return. The Plan Attorney noted that per agreement with Dr. Zerbst, the new fee schedule would apply only to assets acquired after 12/31/87 and the current fee schedule would continue to apply to the presently existing real estate investments. The Secretary further noted that it was Piedmont's desire that their role as real estate "consultant" be terminated and that they serve solely as manager of the Plan's direct real estate investments. The

Secretary stated that it is not proper for Piedmont to be evaluating a group of real estate managers, as they are a manager themselves. He noted that in fact Barbara Cambon's firm, Institutional Property Consultants, produces the quarterly report which evaluates the indirect managers and she has been presenting that report to this Committee. A discussion ensued after which V. Wendorf made a motion that the Piedmont Realty Advisors contract be renewed for a 3 year period commencing 1/1/88 and that the fee schedule in effect under the current contract continue to be in effect during the term of the new contract for presently existing direct real estate assets and that the proposed fee schedule of a 1% acquisition fee for the 1st 12 months and .5% on original cost per year, thereafter, plus an incentive fee of 10% of the cash flow after the Plan receives a cumulative 10% return be applied to assets acquired after 1/1/88. The motion was seconded by Mr. Brown and the Committee unanimously approved.

There being no further business, on a motion by Mr. Nagle, seconded by Mr. Brown, the Committee unanimously approved to adjourn at 12:15 p.m.

SECRETARY
RETIREMENT ALLOWANCE COMMITTEE

CHAIRMAN
RETIREMENT ALLOWANCE COMMITTEE

DATED ______________________