NOTICE

RETIREMENT ALLOWANCE COMMITTEE MEMBERS AND ALTERNATES

THIS IS TO ANNOUNCE THAT THE MEETING OF THE SUBCOMMITTEE ON GENERAL ADMINISTRATION WILL BE HELD TUESDAY, APRIL 23, 1996 AT 8:30 A.M.

THIS WILL BE FOLLOWED BY THE INVESTMENT SUBCOMMITTEE AT 9:30 A.M., THE REAL ESTATE SUBCOMMITTEE AT 10:30 A.M., AND THE RETIREMENT ALLOWANCE COMMITTEE MEETING AT 11:30 A.M.

THE MEETINGS WILL BE HELD AT THE <u>HARRIS BANK, 111 W. MONROE</u>, IN THE EXECUTIVE DINING ROOM ON THE 37TH FLOOR IN ROOMS A AND B.

notice.mtg: April 9, 1996

AGENDA

FOR THE 567TH RETIREMENT MEETING OF APRIL 23, 1996

1. Meeting will be called to order at 11:30 A.M., Harris Trust & Savings Bank, 111 West Monroe Street, Executive Dining Rooms - 37th Floor.

2. Roll call.

3. Approval of the Minutes of the 566th Meeting held March 26, 1996.

4. Investment Subcommittee report.

5. Real Estate Subcommittee report.

6. Subcommittee on General Administration

   a) Announcement of deaths reported since the last meeting.

   b) Presentation of Pre-Retirement Surviving Spouse Allowances for approval.

   c) Presentation of new retirement applications for approval.

      (i) David Ford - #27021 - request for retroactivity to 04-01-96.

      (ii) Lecester Johnson Jr. - #3153 - request for retroactivity to 04-01-96.

      (iii) Harrison E. Crump - #8219 - (disability) - request for retroactivity to 04-01-96.

      (iv) Frank S. Green - #4394 - (disability) - request for retroactivity to 04-01-96.

      (v) Lem Fluker - #13557 - (disability) - request for retroactivity to 04-01-96.

   d) Presentation of Death Benefits for approval.

   e) Presentation of Refunds of Contributions for approval.

   f) Presentation of Bills and Remittances for approval.

   g) Freddie L. Alford - #13665 - repaid $3,731.94 under Rule #31 Pension seniority date November 18, 1985.

7. Old Business

8. New Business

9. Financial Report

10. Adjournment.

agenda\April 17, 1996

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY

The 567th Meeting of the Retirement Allowance Committee was held on Tuesday, April 23, 1996, at the Harris Trust and Savings Bank, 111 West Monroe Street, Executive Dining Room - 37th Floor. The following were in attendance:

Mr. I. Thomas, Chairman
Mr. T. Collins
Mr. L. Brown
Mr. J. Williams
Ms. W. Black
Mr. T. Stevens
Mr. W. Buetow

Mr. D. Perk, Executive Director, was in attendance. Mr. L. Sanford sat in Mr. Hill's stead. Mr. C. Lang sat in Mr. Burrus' stead. Ms. P. Beavers sat in Mr. Holzman's stead. Alternates also present were L. Morris, R. Baughn, B. Rayford and R. Schultz. L. Smith, J. Forte and A. Dungan of the Pension Office Staff were in attendance. A. W. Barnett of Harris Trust and Savings Bank was present. Mr. F. Duda of Harris Investment Management, Inc. was present. Mr. R. Burke of Burke, Warren & MacKay was present. Messrs. B. Scholz, C. Spears and Bill C. Gilmore were also in attendance.

1. The Chairman called the meeting to order at 10:45 A.M.

2. A roll call was taken which indicated that a quorum of Committee members was present.

3. Some revisions were made to the Minutes of the 566th Meeting. On page 1, paragraph 2, line 3, after "J. Williams' stead", add *C. Lang sat in M. Holzman's stead.* Also on page 4, last paragraph, 1st line, after "Mr. Lynch", delete "Mr. Burke".

   On a motion by Mr. Brown, seconded by Mr. Buetow, the Committee unanimously approved the Minutes.

4. Mr. T. Collins, Chairman of the Investment Subcommittee, reported on the meeting held this date.

   Mr. Joachimi discussed how Chicago Corporation was the worst performer and just approximately two years ago they were the best performer. He would like to do an in depth study of the managers after the fourth quarter report is complete. Mr. Joachimi said first he would like to meet with the Committee and show where the problem areas are and then decide which of the managers should be brought before the Committee. Mr. Collins asked Mr. Joachimi for some information on growth money managers for 1, 3 and 5 years that have done well. Mr. Joachimi will try and show data of who consistently perform well.

The first presentation was made by AmalgaTrust, a fixed income manager. Mr. Michael S. Raub and Mr. David Kauger gave highlights of the first quarter of 1996. The CTA initially funded $25 million with AmalgaTrust and in 1992 $10 million was added and in September, 1995 $8.9 million was added. During the first quarter they were ahead of the benchmark by 22 basis points. On an annualized basis since inception they have produced a gross out performance of 43 basis points relative to the Index. The total portfolio is worth approximately $59 million

The Portfolio Allocation for U.S. Treasuries is only 18.8% whereas the Benchmark Allocation is around 69%. Mr. Kauger said they consciously underweighted the treasury sector because they believe they can add value by looking for securities in other sectors that are going to yield more and enhance the return of our portfolio. The same goes for government agencies. AmalgaTrust look for value in corporate, asset backed and mortgages. Mr. Perk questioned why on March 31 they had a little over 19% of BAA investments. They said historically BAA bonds have been the best forming sector corporate bonds. They feel that in the Plan's Portfolio the BAA bonds should be in the 5 year and shorter category. They feel they have the expertise in house to do the credit work and if a company is going to give an extra 125 basis points over treasury, they felt it was a prudent risk. Mr. Stevens asked AmalgaTrust that when we say the benchmark is the intermediate, what is the range on the years. The answer was the benchmark is about 3.3 years. Mr. Steven asked what is the range AmalgaTrust has. They answered 2 to 5 years.

Mr. Stevens pointed out to Mr. Joachimi that there are two managers, Lazard and NCM Capital, and their investment grades are A and better. Their returns are lower. AmalgaTrust and Chicago Trust returns are slightly higher or the same. AmalgaTrust has 25.3% and NCM has 15.3% rated BAA or below. It is about the same as far as the risk but they are in the riskier category, and Mr. Stevens felt we should have gotten a higher rate of return. Mr. Stevens said since inception it is 8.5%. Chicago Title is 8.3%, NCM Capital is 8.1% and Lazard is 8.3%. Are we getting that much more for the risk we are taking? Non-rated is .9%, BA-C is 4.7%. We do not have any other manager that has that type of combination. To Mr. Stevens it is a lot riskier than A or above. AmalgaTrust said they do not hold any non-rated securities. They said they have a rating for each one. Some companies do not choose to get ratings from all the agencies.

There was a long discussion about investment grades.

Mr. Joachimi discussed how the Board had made the change in the investment grade. It was at A or better and the Board went to BAA on Moody's, BBB on Standard and Poor. Mr. Joachimi said that change was made and everyone knew they could go to that level. Mr. Joachimi felt it was a good change. None of the money managers has a portfolio that could be classified as risky according to Mr. Joachimi.

Mr. Stevens asked AmalgaTrust if any of these bonds been downgraded in our portfolio since they bought them. They were not aware that they had been and if they were downgraded, it would still be within the category. If they would fall below the category, AmalgaTrust would then either contact the Board or sell.
Mr. Joachimi discussed how Goldman Sachs, who is the underlying firm who is making the choices, has a very good equity research firm. They are using equity research when they are buying these bonds. They buy them because they feel these companies will do well. Mr. Raub said they choose Goldman Sachs because of their research capability. They are rated consistently in the top two or three for the research they provide on Wall Street. That is not the only reason they were chosen - back in 1990/91 they were chosen because of their risk and control philosophy on risk.

Mr. Stevens said we are not treating AmalgaTrust fairly if it is not truly 25.3% in BAA and below in their portfolio. Mr. Stevens suggested that Mr. Joachimi's Office match the financial report so AmalgaTrust is put in the proper category. It has something to do with Financial Control Systems and it gives a poor reflection that 25% is below A. Mr. Joachimi wants to get a copy of the policy statement to see what percentage is listed in the statement. Mr. Joachimi thought it was 15%. If that is true, there would be some questions to ask. He said this matter will have to be clarified.

The Plan Attorney reminded the Committee that a restatement of the Plan's Investment Policies has been on the docket for some time and this issue of classification of the security. The most recent draft says A minus by Standard and Poor or A or higher by Moody's. This has not been adopted by Committee, and the practice is not consistent with the statement of policy. The Committee should set investment grade so we do not have an investment policy contrary to what is actually happening out in the field. At the moment our policy is different from our practice. Mr. Duda of Harris Investments said all of our securities are rated by Standard and Poor and Moody's. He said non-rated comes in if you look at your asset backed sector. In the asset backed market place many times asset backed security issues which are AAA do not go to Standard and Poor to get a rating. You will see one asset backed which is AAA by everyone else and is non-rated by Standard and Poor. Asset backed sometimes do not get two ratings. All your other securities have a Standard and Poor and Moody's rating. They do have a rating of one of the two major services. He said that is where the confusion comes in for asset backed but they are AAA rating and high quality securities.

The next presentation was by Chicago Trust represented by Frederick W. Engimann and Thomas J. Marthaler. They both work in the fixed income management trust unit at The Chicago Trust Company. Their name was officially changed in 1995 to The Chicago Trust Company; formerly they were know as The Chicago Title and Trust Company. The financial services investment management unit was renamed to take on a stronger identity. They wanted a different identity from the real estate business.

At The Chicago Trust Company they manage about $5.5 billion in funds for institutions, mutual funds as well as personal trust funds. Mr. Engimann told about their investment organization and the number of employees. The spoke about the Retirement Plan's portfolio, investment guidelines and restrictions. Securities must be investment grade rated AAA, AA, A or BAA. The Plan invested $20 million with Chicago Trust in 1991 and it is now worth $34.6 million. They have an average quality rating of AA2. Mr. Stevens asked what their rate of return was from inception until March 31, 1996. Mr. Engimann said about 8.05% (before fees).

Mr. Collins discussed the fact that the meeting regarding the RFP's was canceled on April 22 and rescheduled to Wednesday, April 24.

He brought up the fact that they spoke to Ark Capital and Palmyra. They are still dangling and Mr. Collins is going to bring them before the Committee in May so there will be a final disposition. Mr. Stevens thought the decision was no but Ark and Palmyra have spoken to some of the Members and they will be given another chance to come before the Committee.

On a motion by T. Stevens, seconded by C. Lang, the Committee unanimously approved the Investment Subcommittee Report.

5. Mr. J. Williams, Sr., Chairman of the Real Estate Subcommittee, reported on the meeting held this date.

There was an assessment adjustment evaluation on the 191 N. Wacker Building. With the new assessment adjustment we will be saving $298,860 on taxes from the last evaluation. The building is scheduled to be demolished December 2, 1996. The Plan Attorney said they are in the process of working with the city to get the necessary permits to tear the building down because there are some old underground vaults which have to be closed down so they have to go through the permit process. It will then go out for bid for demolition with the hope of getting it taken down this year.

On a motion by L. Brown, seconded by W. Buetow, the Committee unanimously approved the Real Estate Subcommittee Report.

6. Mr. T. Stevens, Chairman of the General Administration Subcommittee, reported on the meeting held this date.

Present for the meeting were I. Thomas, L. Brown, W. Buetow, W. Black, J. Williams and T. Stevens.

Mr. Stevens requested approval of items a through g.

Mr. Forte reported on Michele Calzolaio, a trackman, who was found fit to return to work from disability. Mr. Calzolaio was offered a job as a file clerk paying $14.90, which is 80% of his trackman's pay but he has called Placement saying he was going to contact his lawyer. Mr. Forte took Mr. Calzolaio out of payment because once you are offered a job paying 80% or more of your salary, you must take the job as long as you can do the job and he can. He is a member of Local 308.

Mr. Thomas questioned why there are so many requests for retroactive pensions. Mr. Forte answered that if applications for retirement are received after the 14th of the month and are considered eligible for that month, then they become retroactive. Most disability pensions are retroactive pending medical.

Mr. Perk said the Pension Office has done as promised and whenever they draw down any money, the Board would be notified. The Board was notified that the Pension Office took $5 million from 20th Century and $1 million from Ariel to be transferred on April 30.

Mr. Stevens asked if there was any feedback regarding the new Pension Statement. Mr. Thomas said he had received some but at a later date it would be discussed at an Executive Session.

The Plan Attorney wanted to know if there was any information sent out by the insurance companies regarding survivorship option after their presentation at the March Meeting. Mr. Stevens said we had asked Mr. Andersen to go back and review it and an RFP would probably have to be sent out. Mr. Burke said the issue regarding the possibility of having an insurance program available for employees instead of the reduction in the survivorship option could be covered in the collective bargaining contract so the Plan would have that flexibility. The Plan Attorney said the only reason he raised the issue is if the Committee or the Authority or the Unions were desirous of adopting that program. We do not have the authority of adopting it by way of modification to this Plan but it is a topic for collective bargaining which is going on right now. It could be considered by way of either a program apart from the Retirement Plan or a program in the Retirement Plan but he pointed out to the parties involved in the collective bargaining that this is a issue they may wish to raise to be implemented here. If the plan is to be offered outside the Retirement Committee, it is not an issue for collective bargaining but if it is to be offered as a option for individuals participating in the Retirement Plan, then it would have to be addressed by collective bargaining. There was discussion about this.

The Plan Attorney brought up the fact that at the March, 1996 meeting the Board has approved in concept CNL, and there will be a need to address funding later in the year.

On a motion by Mr. Collins, seconded by Mr. Brown, the Committee unanimously approved the General Administration Subcommittee Report.

7. Old Business

8. New Business None

9. Financial Report - the Executive Director then turned the Committee's attention to Report of Deposits, Disbursements and Investment in the Trustee Summary and noted that for the month of March, 1996, the performance for the total fund was 1.02%, and the value of the total assets of the Plan as of March, 1996, amounted to $1,383,110,947.

10. There being no further business, the Committee unanimously agreed to adjourn at 11:05 A.M.

Executive Director,
Retirement Allowance Committee

Dated: 6/26/96

Chairman,
Retirement Allowance Committee
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