AGENDA

For the 595th Retirement Allowance Committee Meeting of August 25, 1998

1. Meeting will be called to order at 08:30 A.M., Northern Trust Company, 50 South LaSalle Street, Directors Dining Room - 6th Floor.

2. Roll call.

3. Approval of the Minutes of the 594th Meeting held July 28, 1998.

4. Investment Subcommittee report.

   a) Financial 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) Carmen D. Claudio - #23198 - (disability) - request for retro-activity to 08-01-98.

   d) Presentation of Death Benefits for approval.

   e) Presentation of Refunds of Contributions for approval.

   f) Presentation of Bills and Remittances for approval.

   g) William T. McHugh - #D3127 - returned to duty - 07-21-98.

7. Old Business

8. New Business

9. Executive Session

10. Adjournment

RETIREMENT PLAN FOR CTA EMPLOYEES
10 SOUTH RIVERSIDE PLAZA
SUITE 1625
CHICAGO, ILLINOIS 60606

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RETIREMENT ALLOWANCE COMMITTEE MEMBERS AND ALTERNATES

THIS IS TO ANNOUNCE THAT THE MEETING OF THE SUBCOMMITTEE ON GENERAL ADMINISTRATION WILL BE HELD TUESDAY, AUG. 25, 1998, 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 NORTHERN TRUST COMPANY, **50 S. LA SALLE STREET**, IN THE DIRECTORS' DINING ROOM ON THE 6TH FLOOR.

notice.mtg: August 10, 1998

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY

The 595th Meeting of the Retirement Allowance Committee was held on Tuesday, August 25, 1998, at the Northern Trust Company, 50 South La Salle Street, 6th Floor. The following were in attendance:

Mr. D. Anosike, Chairman
Mr. L. Sanford
Mr. M. Acosta
Mr. J. Kallianis
Ms. W. Black
Mr. T. Collins

Mr. David Washington sat in Mr. Thomas' stead, Ms. B. Rayford sat in Mr. Williams' stead. Ms. Anderson sat in Ms. Leonis' stead. Alternates also present were R. Winston and C. Lang. J. Forte, W. Ross and A. Dungan of the Pension Office Staff were in attendance. Ms. P. Newton of Northern Trust Company was present. Mr. R. Burke of Burke, Warren, MacKay & Serritella was present. Messrs. J. Guerrero, C. Wesley, C. Spears and J. Henderson were also in attendance.

1. The Chairman called the meeting to order at 11;53 A.M.

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

3. On a motion by Mr. Collins, seconded by Mr. Sanford, the Committee unanimously approved the Minutes of the 594th Meeting.

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

   Mr. Kallianis asked Mr. Joachimi to give a brief update on Janus and Dreyfus. They have been notified that the Committee has recommended them to the Trustee as investment managers and the next step would be to give them the portfolios, and then they can decide which stock they will take in kind and liquidate the rest. Mr. Joachimi expected this to be done this week. The Plan Attorney said both have been approved by Northern Trust. Investment Management Agreements have been sent out to be executed.

Mr. Anosike asked for an update from Mr. Ross on who our brokers are and how many are minority. Mr. Joachimi uses Broadcort, Bear Stearns, Paine Weber, Wilshire Associates and McDonald and Company. They are top notch brokers. Mr. Anosike is interested in using Chicago brokers. Mr. Joachimi said managers can use any brokers they want. He is not recommending any brokers. Mr. Thomas said we should stay away from recommending brokers. Mr. Anosike said he is not recommending brokers but he just wants some information. Mr. Thomas said there have been discussions about this numerous times in the past and about the list of recommended brokers. Mr. Joachimi said the list he uses are for all his clients, and he is not going to change his list. However, if the Committee has someone they want they can vote on it and they can have whomever they want to be one of the brokers. Mr. Joachimi said this is an area that the Committee should stay far away from. Mr. Joachimi said you should have all the information that is available but when it comes to a particular broker, the Committee should not require trades through certain brokers. Wellesley is going to deal with only the top people. They insist that the top people are on their list but it does not mean the Committee cannot have someone else.

Mr. Williams stated that a year ago they did a study. He felt what Mr. Anosike was asking for was not out of line. Some of the things we are discussing today about brokers are the same as when we formed a committee and did some investigations. We made a report but as far as asking for information, that is fine and that should not be a problem. It has to be the best execution and the lowest commission.

Mr. Collins spoke about a group called Plexus and there are others. What Plexus does is measure the fact that execution is done properly and if the trade was supposed to be at 10 A.M. and it was done at 2 P.M., that discrepancy is noted. Mr. Collins said the fees over the course of a year are not that much. He felt that they should be brought before the Committee to hear what this group can do for the Plan.

Mr. Kallianis asked Mr. Joachimi what he meant about picking the best and biggest brokers. Mr. Joachimi said there are reports that come out every year that talk about the top traders and it gets into cents for share, etc. What Wellesley did is here strictly for the Plan's use. He said cash is fine with him and the Committee decided to have a program where there is not just one broker but a multiplicity of brokers and one of the goals is that they consistently be one of the top brokers in the business. They are the biggest traders and are very good at what they do and so we have said even though it costs us more money. Mr. Joachimi said he would not put Lynch Jones on their list because he has over 40 clients. They will continue to do it the best way that they can. Wellesley is using the top ones. What you have to ask yourself is this firm known for their order execution. When it comes to this type of thing Mr. Joachimi said the Committee can get in trouble because if you insist trading has to go through a certain broker. He told the Committee they do not want to do this. Ms. Rayford brought up the point that they do not want to tell the money managers who to use but the fact is that we send a letter on Pension Office stationery that names all these brokers. Ms. Rayford thought that an investment manager uses whomever he wants. He may or may not use one of the brokers listed in the letter. Ms. Rayford asked why Melvin Securities was never used. Ms. Rayford said this has been a discussion since 1990. They are a minority broker.

Mr. Collins said he felt there is a letter that Mr. Joachimi is willing to be part of that comes out of his office, and he said there is also a letter that come from this Committee. Mr. Joachimi is saying that the letter coming out of his office will have the names of the brokers he has mentioned. There will be no letter coming from his office that will include anyone else; however, the Committee has the right to author a letter so Mr. Collins cannot understand what all this conversation is about.

Mr. Joachimi said the reason we have this in place is to give you some type of easing of your budget but not to the detrimental of trading or execution. 50% of all Wellesley's fees are covered by commission and the number is going down. The reason for this is the government is questioning soft dollar use. Mr. Joachimi said it could go away.

Mr. Ross said the letter says we want you to use the Wellesley groups program. We also want you to use Lynch, Jones and Ryan, which is a directed program. We also say, whenever possible uses a minority broker. If you want to change the letter and put someone else on it that is fine. That letter is the Board's and they can put on it whomever they want. The last time the letter was sent out was in February, 1998. They are sent out every year.

Mr. Williams said we did a study and he felt the Committee was satisfied with the method that was used. He did feel it was good to get information so we can do a follow-up.

There was further discussion about brokerage house. Mr. Sanford said that this not our expertise -- that is Mr. Joachimi's expertise.

Mr. Collins asked should he bring in Plexus or someone of that nature at the next meeting. Mr. Kallianis said we should plan that for October.

Mr. Joachimi said he will look for minority managers outside of the Chicago area because there are none that qualify in the Chicago area. He felt there should be a special meeting before the next meeting. Mr. Joachimi said he will get back to the Committee with names of some potential managers. Mr. Joachimi said the Committee should only choose managers that beat the average. Mr. Williams asked about a growth/equity manager named New Amsterdam. Mr. Joachimi will get back to him with this information. Mr. Joachimi said almost 74% of the Plan's assets are in equities - the range is 40 to 65%. International is at 4.8% and the range is 0% to 5%. He thought the Committee had agreed to increase the international to 0% to 10%. The Secretary will check the Minutes for this information. The Committee has to make a decision to increase exposure or decrease equities because we are overfunded in equities. This is a whole subject matter where the actuaries should be present and we speak of fixed income according to Mr. Joachimi. The Plan was at 70% at one time but the early retirement program has forced us to say we have to have a little more anchor to windward. The Committee has to face two things 1) what is the proper equity exposure and 2) do we live by re-balancing. Mr. Joachimi suggested this is something the Committee needs to resolve.

Mr. Joachimi asked Mr. Ross if we are overcommitted to income value . That percentage of the equity if 33%. We have a low and high target of 20 to 40%. Income and value is 33% quality growth is 15% and growth and income is 12% according to Mr. Ross. Income by far is the largest category at 33%. Mr. Joachimi said we are right up at the top on aggressive growth and in the middle on both quality growth and growth and income, and we are closing in on the top on value. There could be some adjustments made in that as well. Ms. Rayford discussed articles and rating services about certain managers.

Mr. Ross informed the Committee regarding Weiss, Peck & Greer that the Plan sold a distribution of Cisco Systems. There were about 5,157 shares. They were sold at 99-15/16 at 5 cents commission and we netted out about $515,000. Recently, we received another distribution with a company that is involved with the Internet and it is called Double Click. This is coming out of Weiss, Peck IV. We are planning to sell this one as well and salt it away.

Mr. Joachimi introduced Mr. William Monagle who works at Wellesley. He works with the MBTA, which is almost the exact size of the CTA. He works only with alternative products.

Mr. Monagle reported that Weiss, Peck III and IV are inherent to the style of our Plan. Up to June, 1998 the Plan received back 205%. The bulk of the distribution which you owe to Sienna. Fund IV is moving ahead very quickly. Weiss, Peck is being bought by Rebeco. Discovery Ventures III - the founder has increased the fund to around $35 million. That is to create a farm team basically for Weiss, Peck and Greer.

Mr. Monagle explained to the Committee about different ventures we invested in and about different funds. The concern is the information technology area. The Plan has done well but if that falls down, the Plan does not have diversification of managers. What Wellesley would like to do is to develop a strategy for investment in that area. The dynamics are that the Plan will never really hit the full amount of investments. When the Committee looks at this they have to determine how much they want in seed in early stage, middle stage, later stage, mezzanine and buyout. Those are different factors within private equity venture capital. There are about 30 managers in this program right now. The percentage of investment is 5% for the MBTA and they have committed 10%. This is one of those areas where you have to over commit in order to get there. It is constantly moving whether it is Weiss, Peck and Greer or IEI out of Minneapolis. The real key in this according to Mr. Joachimi is that we have to have a lot of equity but equity could run into a bit of a problem. This type of investment, the alternative product type of investment, can be very important to your overall equity program. Mr. Joachimi said the Plan should expand the program. Weiss, Peck and Greer is very good but there is a need for a second manager. Venture Capital does not correlate well with the market. Often times when the market is skyrocketing, this area does not do as well but when the market is going down, it is going up. Mr. Joachimi felt it would be an important part of the portfolio. Mr. Collins suggested that Messrs. Joachimi and Monagle send extensive information to the Committee. Mr. Monagle said you do not want to give someone $100 million whether they can only use $35 because they do not have the ability to put the dollars to work. Mr. Monagle discussed where they would invest the money and how we would get the money back. Discovery Ventures II has already given back $4 million on $7 million paid in.

Wellesley will provide the Committee with information on a monthly basis.
Mr. Joachimi said if there is something they should really look at, they will report to the Committee, and they can make up their mind if they want to invest or not. The deal with these things are that they have closings and they do not adhere to your meeting times so there will be a need to talk about them ahead of time.

The Plan Attorney said this type of investment falls within the parameters of the Investment Policy. It is going to introduce a few changes which the Committee has not yet fared and that is moving more quickly in regard to the decision-making process and that there will be some volatility.

Financial Report - Wayne Ross then turned the Committee's attention to Report of Deposits, Disbursements and Investment in the Trustee Summary and noted that for the month of July, the performance for the total fund was 2.21% and the value of the total assets of the Plan as of July 31, 1998, amounted to $1,789,312,534.

Mr. Ross told how they received $3 million from SSR Realty for the sale of one of their apartment units. We funded today $4 million for Capital Associates to buy an apartment complex in Kansas City.

Mr. Collins asked Mr. Ross how far along are we in paying our bills. Mr. Ross said there is $58 million in cash and the Committee will be down to about $52 today. He felt we would have enough money until October if we do not do any other funding.

On a motion by Mr. Sanford, seconded by Ms. Black, the Committee unanimously approved the Investment Subcommittee Report.

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

Mr. Grant Berlin of Townsend reported on the first quarter of 1998. The portfolio had a market value of $125 million. The Real Estate target should be approximately $185 million. He made some real estate investment recommendations. The portfolio return was 2.5% compared to the NCREIF Proper Index which was 3.9% during the quarter. For the rolling one year period, the portfolio underperformed the NPI 9.7% versus 15.6%.

Mr. Berlin said the Plan needs to invest $99.5 million to get to the 10% target set out for real estate. As previously discussed, the strategic target is about 60% core and 20% value added funds and 20% public REIT's. The Committee will have $25 million to invest in value added funds which Mr. Burke said falls within the parameter of our investment policy and about $37 million to invest in core properties, and $37 million to invest in public core, which is the REIT's.

In terms of available funds $25 million should be invested in value added funds and the Committee should decide who they want to invest in. They want to bring these people in for a special meeting and identify 2 managers to invest $10 to $15 million which would then satisfy the 20% allocation to non-core/value added investments. Several of the funds listed in the booklet he gave the Committee have closing dates in the very near future. Mr. Acosta will set up a special meeting.

Mr. Lang asked why the Plan continually lags the index. Mr. Berlin said some of the Plan's investments are old. They have been in their long time and were inherited. When the new investments come in we will be closer to the index.

Jeffrey Manor -RREEF is negotiating with the City of Chicago on a 7 year lease on the space vacated by Ameritech and that will bring up occupancy to 100% in that asset.

According to the Plan Attorney, the Lake Wacker property will be closing next month at $12.5 million. Buyers have $1,000,000 earnest money - non refundable.

There was a discussion about real estate managers.

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

Mr. Collins requested approval of items 6a through g.

Mr. M. Shanley of Ernst and Young reported on the audit of financial statements. He also spoke about what the results where. The auditors found no errors. They issued a clean opinion of the financial condition of the Plan. Ernst and Young made two suggestions:

1. Custodian Focus
2. More frequent reconciliations between FCS and The Northern Trust

Every month or every quarter there should be a reconciliation. Northern is not recording transactions as they should and that makes it very difficult for the Plan to reconcile.

The year 2000 has an impact on money systems. The Plan should focus on the year 2000 and make sure their vendors and suppliers focus on this. An action plan should be developed for insuring that appropriate changes are made to software programs, etc. prior to the end of 1999.

Mr. Thomas said that is a very serious charge regarding reconciliation by Northern and asked what it concerned because it will have to be discussed with Northern. Mr. Shanley said in some instances income is received from a real estate investment and it is not recorded as real estate but as miscellaneous. Dividends in some instances are also recorded as miscellaneous. What happens it is not being put in the correct category. Mr. Shanley said it has two impacts.

1. You have to have confidence that the $1.7 billion is there. Everyone tells you it is there. The way you know it is there during the year is by reconciling. It takes more time at the end of the year when it is not reconciled.

   Mr. Burke said it might show a deviation of what the Committee thinks they are getting.

   Mr. Shanley felt it should be reconciled monthly. Ms. Newton wants to set up a meeting with the Committee regarding this.

Mr. Rick Speelman and Ms. Denise Patterson from Watson Wyatt
gave an actuarial report. They spoke about ways to improve funding ratio by increasing contribution level, increasing investment return, reviewing plan design and change actuarial assumptions and methods. The current funding level for 1/1/98 is 73.7%.

Mr. Collins asked about health coverage, what type of assumptions does the Plan use. He stated that the Plan pays for the health coverage of the retiree and is that something you assume will escalate. Mr. Speelman said their assumption is now, whatever it is now, it will be in the future. The reason they can do that is because it is something that is in the contract and is negotiable every time. If it was something that was in there all the time, we would have to factor in an inflation assumption. Mr. Williams asked if it would be time consuming to get a projection on the health care for retirees. Mr. Collins said it is something we negotiate every contract, and it is something fairly standard.

Mr. Speelman said usually a high turn over rate is beneficial. The more people who leave the better. Bringing people in at lower age lowers the costs to the extent that they do not get salary increases that soon. That paints a better picture for the Plan.

Mr. Kallianis asked about the number of people on disability retirement on schedule A-4. 720 are carried on disability retirement. He wondered if that is correct and was it something out of the ordinary. Mr. Collins said that is something the Committee has looked at, and they have tried to tighten up some of the requirements but have not been able to stop it. The Committee took action a short time ago and still have not stopped the disability rolls from increasing.
Mr. Speelman said the rates are not out of the ordinary.

Mr. Joachimi said with 9% return assumption, where does that put the Fund in the scheme of things -- more aggressive or more defensive. Wyatt said a little more aggressive.

There was a long discussion between Watson Wyatt and the Committee.

Ms. Rayford asked is assumptions something we are going to talk about. Mr. Collins said if there are changes with regard to assumptions, this comes during contract negotiations. Otherwise, if there is a need for changes it is usually brought up by Mr. Joachimi who makes suggestions to the Committee and follows it up with certain documents. Mr. Collins felt there was some things hanging out there at the moment regarding the investment policy statement and should we make changes since we are at 73% with equities which is a little more than the Plan calls for.
Mr. Joachimi has consistently tried to get us to balance back but he has also said it is our prerogative. If it is the consensus of the Board to stay where we are at, then we need to adjust the policy statement. Mr. Williams said he felt there was no reason to discuss smoothing assumption because the Plan's methods are strong and that we should move on to the next subject.

Mr. Forte was asked about the two survivors that were paid A-1/2. He said that two employees died and they did not have 25 years so the survivor received 1/2 of what the employee would have received if he was retired.

Out of the 19 retirees, 6 went under the Incentive Plan.

Carmen D. Claudio, who was on the agenda, was asking for retro back go 8/1/98 because the pension papers were not in on time.

There was a discussion about the letter from Helen Banks who was asking for 2.40%. During the incentive, Ms. Banks was okayed to come off disability and return to work before the first phase was ended but CTA told her there were no positions for her and when they did find her a position it was the beginning of this year, and she was still asking for the 2.40%. Mr. Williams said he had originally brought this before the Committee. He had discussed this with Mr. Sanford at that time and he thought she was under the 2.40% and she did apply in time for the 2.40% and he found out last week she was not getting the 2.40%. Mr. Williams felt she should get this. Mr. Sanford said she had been a Ticket Agent, and the Authority was not hiring Ticket Agents. Personnel told her that there no longer was a position of Ticket Agent and at that time it was approaching the window. She never received the packet for the 2.40% and Mr. Pollack did not allow her to get in on the window. She told CTA she wanted to come back to work and she wanted to retire. Mr. Sanford does not know if she filled out the proper forms.

Ms. Rayford said she got the clearance to go back to work but Mr. Pollack refused to give her the 2.40% because she had no papers and then there was a delay in processing. The Plan Attorney said if she was on disability when she went in to see Mr. Pollack, he could not give her the packet. The issue seems to be here that she wanted to come back to work but the Authority did not have a place for her.

Mr. Williams said she was released to go back to work and she should have been allowed to go back to work. Even though the transition was from Ticket Agent to Customer Assistants, they were all Ticket Agents. She would have been allowed to go back to work.

Mr. Collins thought the rule as the Committee has always followed was that the employee has to be on the property at least 5 days before. Mr. Anosike suggested that the Plan Attorney look into this situation. Mr. Collins agreed and he said he would like him to take a look at this primarily because he has not had a chance to do so and report back to the Committee. There are some things in place and if this case presents something different, Mr. Collins would like to know what the differences are.

Ms. Rayford asked Mr. Forte to check the bills from CTA for the payroll of the Pension Office and why the amounts were different.

Mr. Collins discussed the retirement of Anthony Jones, a 241 member. Mr. Morris and himself had spoken to Tom Czech who informed them that Anthony Jones was not an individual who needed to be in the grouping of part time board members who were being held up based on CTA's decision. Mr. Jones was promised the date of September 1 by Mr. Czech but he is not on the list. Mr. Collins will go to Mr. Czech's office and make inquiries about Mr. Jones with the strong possibility of asking next month for retroactivity to September. He wanted this put in the record. Mr. Forte reminded that if he works one day in September he cannot get a retro. Mr. Collins will remind him.

On a motion by Mr. Acosta, seconded by Ms. Anderson, the Committee unanimously approved the General Administration Meeting.

7. Old Business - None

8. New Business - None

9. Executive Session - None

10. The Committee unanimously agreed to adjourn at 11:55 A.M.

James Forte

Chairman,
Retirement Allowance Committee

Dated: 9/22/98

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