Retirement Plan for CTA Employees

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TO: **Retirement Allowance Committee Members and Alternates**

FROM: ______________________
John V. Kallianis

DATE: **January 18, 2007**

RE: **Retirement Allowance Committee Meeting**

This is to announce that the Retirement Allowance Committee Meeting will be held Thursday, January 25, 2007 at 9:30 a.m., LaSalle Bank, 135 S. LaSalle.

If you have any questions, please call me at (312) 463-0350.

JVK:gmb

AGENDA
For the 694th Retirement Allowance Committee Meeting of
January 25, 2007

1. Meeting will be called to order at 9:30 a.m. at LaSalle Bank, 135 S. LaSalle.

2. Roll call

3. Consideration of the Minutes of the 693rd meeting

4. General Administration Subcommittee Issues

    a.) Announcements of deaths reported since last meeting
    b.) Presentation of pre-retirement allowances for approval
    c.) Presentation of new retirement applications for approval
    d.) Return to work from disability allowances
    e.) Disability summary
    f.) Election of deferred vested old age retirement allowance
    g.) Retirement applications revoked
    h.) Presentation of death benefits for approval
    i.) Presentation of refunds of contributions for approval
    j.) Presentation of bills and remittances
    k.) Cash flow statement

5. Investment Subcommittee Issues

6. Real Estate Subcommittee Issues

7. Old Business

    a.) 401h Status

8. New Business

9. Executive Session

    a.) Personnel matters
    b.) Litigation

10 Adjournment

The 693rd Meeting of the Retirement Allowance Committee of the Retirement Plan for Chicago Transit Authority Employees

Meeting Minutes

A regular meeting of the Retirement Allowance Committee was held on December 21, 2006 at 161 North Clark Street, 28th Floor. The Chairman and the Executive Director were present.

A roll call was taken indicating that the following members were present:

Dennis Anosike
John Burkard
Rick Harris
Darrell Jefferson
Carl Lingenfelter
Lynn Sapyta
Paul Sidrys
Michael Simmons
Darryle West
Richard Winston

On a motion by Mr. Jefferson, the minutes of the 691st and 692nd meeting of the RAC were approved.

General Administration Subcommittee Items

Mr. Simmons presented for approval items 4 (a) through 4 (j), including the death reports since last meeting, pre-retirement allowances, new retirement applications, return to work from disability allowance, disability summary, retirement applications revoked, death benefits, refunds of contributions, bills and remittances, and the cash flow statement. Mr. Simmons stated that the total amount of bills and remittances for the month was $7,328.323. Mr. Simmons stated that, with regard to Item 4 (j), the Plan has a negative cash flow through November 30, 2006, of over $64 million.

Mr. Kallianis added that Mr. Wilfred Lajara had been found fit to return to work as a Machine Operator II and that the CTA had already notified the Plan that there was no position available for him. That makes about 8 or 9 people who have been found fit to return to work with no positions available. Mr. Kallianis reminded the Committee that there had been a vote to terminate benefits for people who had been found fit with no job available. That vote had resulted in a deadlock, which should have resulted in an arbitration. Mr. Kallianis indicated that all of the people who had been found fit to return to work with no job available were still receiving disability benefits even though they were no longer disabled.

On a motion by Mr. Burkard, the Committee approved the General Administration Subcommittee report.

Investment Subcommittee Items

Mr. Lingenfelter asked Ivory Day to provide the third-quarter, 2006 performance report.

Mr. Day started with the Capital Market Review. He indicated that housing was down, consumer spending continues to be up, unemployment continues to be moderate; 4.6% and inflation is low by historical standards. The commodity prices seen rising in recent years being led by energy had fallen off during the quarter. The S&P 500 earnings yield was about 5.8% compared to 4.8% for the Treasury. Russell 1000 index representing large caps was up 0.44%. Value out performed growth in just about every size category, as value has been out performing in recent years since the bear market of 2000. The EAFE Index and World Index were up respectively out performing domestic stocks. The bonds came in with lower returns than stocks in general. Longer term credit and longer term governments did better for the three months ended. International equity returns were very close among the various segments of the market; with Europe leading the way there returns have out performed there mark, but Japan falling with a negative 0.7% return. He indicated that the Plan started the quarter with $1.13 billion, and there was a net cash outflow of $30.6 million, and the performance brought to you by your mangers was $26.8 million. The Plan's return over the 10-year period ended September was 8.95%, the 5-year number is lower; 8.74%, and for the quarter return was 3.93% out-performing the policy benchmark of 3.3%. Alliance under performed with a 2.5% return, Paradigm with 3.3%, U.S. Bancorp and Friess on mid cap under performed, Dreyfus, Evergreen, and Ariel small cap under performed contributing negatively to your total return as opposed to under performed the quarterly benchmarks. Fixed income did more poorly than equities. Stable value was 1.1% with the index at 1%; Real Estate came in at 3.5%, and hedge funds at 1.4%.

Mr. Lingenfelter brought before the Committee several substitute managers - Harbinger Capital to replace Deerfield Capital in the Hedge Fund space, Nexos Capital to replace AA Capital in the Private Equity space and a name change for Black Star partners to Avondale Partners.

On a motion by Mr. Lingenfelter, the Committee approved the following manager substitutions and name change: Harbinger Capital replaces Deerfield in the Hedge Fund space, Nexos Capital Partners replaces AA Capital, and Black Star is now called Avondale Ventures.

Mr. Lingenfelter also indicated that there was a list of private equity funds that would complete the 2006 private equity allocations.

On a motion by Mr. Lingenfelter, the Committee approved the allocation of $6 million to each of the following private equity funds: City Front Capital Partners, Nautic Partners, CCMP Capital Investors, and Silver Lake Partners III.

Real Estate Subcommittee Items

Mr. Winston asked Sarah Cachat from the Townsend Group to give the third-quarter, 2006 report.

Ms. Cachet indicated that the portfolio was still running strong. The market value of the NPI at the end of the third quarter sat at approximately $232 billion, and has returned a 3.5% this quarter, and on the rolling one-year basis it returned a 17.6% total gross. About 6% of that was income and 11% or 12% was appreciation gains. The market value was $144.7 million, and for the quarter it returned 3.5%, which matched the NPI. On a rolling one-year basis, the portfolio returned 17.9%, of which about 13% of that was appreciation on the portfolio level. The benchmark for the portfolio is a 5.5% net real return over rolling five-year period. The quarter is up to about 9%. In terms of core performance, Capital Associates Apartment Fund is winding down toward the end of the liquidation. PRISA purchased two premier industrial properties in Los Angeles and in Orange County California, a total acquisition price about $642 million. In terms of non-core investments, the fund processed for four of the seven commitments that were made by CTA. These four investments created an internal rate of return of 45% on a 3.5% equity multiple.

On a motion by Ms. Sapyta, the Committee accepted the Real Estate Subcommittee report.

Ms. Cachet also updated the Committee on the ACSS Dallas industrial portfolio in Dallas, Texas through Kennedy Associates. The investment has been held since 1993, and in various time periods it has seen a slight struggle with occupancy levels, although overall the performance has been relatively strong for the portfolio. Ms. Cachat indicated that they recently had internal valuations this quarter which places the portfolio's value at about $52 million and that they were moving ahead on the sale of the portfolio in order to return capital to the Limited Partners.

Old Business

None Scheduled.

Mr. Kallianis brought to the Committee's attention an article that was written in The New York Times by Mary Williams Walsh. The article addresses the pension problems across the US and specifically at the CTA.

Mr. Kallianis passed around copies of the article and a historic funded-ratio chart and reiterated to the Committee that the Plan's funded ratio had dropped from approximately 66% in 2000 to 34.4% in 2006, when the liability for health care costs were fully recognized. He indicated that there were a number of publications, including our actuarial assessments, which had our funded ratio dropping from 80% to 34.4% over that same period of time. He further indicated that the 80% funded ratio in 2000 was artificially inflated because it did not take into account trend in healthcare costs or the payment of actual costs incurred as had been decided by the RAC in January, 2003.

New Business

Mr. Kallianis reminded the Committee of its current lack of fiduciary liability insurance and spoke generally about the type of coverage and the approximate costs when we carried the coverage. He indicated that, in 2003 the Plan's coverage was not offered for renewal due to several ongoing lawsuits. Those suits, combined with the accounting scandals that were moving through the private sector, combined to make this type of coverage prohibitively expensive. He indicated that the landscape for coverage had changed and that people from Mesirow Financials' Insurance Division were at the meeting to address the coverage.

Mr. Hynes, Mr. Goesel, and Mr. Bowen from Mesirow Insurance gave an educational presentation on fiduciary liability insurance; why it's important for the Committee to at least consider the idea of purchasing this for both of your Plan as well as for your personal benefit as fiduciaries of the Plan.

Executive Session

No business

The Committee was adjourned on a motion by Mr. Jefferson.