

AGENDA

FOR THE 584th RETIREMENT MEETING OF SEPTEMBER 23, 1997

1. Meeting will be called to order at 11:30 A.M., Northern Trust Company, 50 South LaSalle Street, Directors Dining Room - 6th Floor.
2. Roll call.
3. Approval of the Minutes of the 583rd Meeting held August 26, 1997.
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.
 - d) Presentation of Death Benefits for approval.
 - e) Presentation of Refunds of Contributions for approval.
 - f) Presentation of Bills and Remittances for approval.
7. Old Business
8. New Business
9. Financial Report
10. Executive Session
11. Adjournment

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RETIREMENT PLAN FOR CTA EMPLOYEES

10 SOUTH RIVERSIDE PLAZA

SUITE 1625

CHICAGO, ILLINOIS 60606

(312) 441-9694

NOTICE

RETIREMENT ALLOWANCE COMMITTEE MEMBERS AND ALTERNATES

THIS IS TO ANNOUNCE THAT THE MEETING OF THE SUBCOMMITTEE ON GENERAL ADMINISTRATION WILL BE HELD TUESDAY, SEPTEMBER 23, 1997, 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.



RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY

The 584th Meeting of the Retirement Allowance Committee was held on Tuesday, September 23, 1997, at the Northern Trust Company, 50 South La Salle Street, 6th Floor. The following were in attendance:

Mr. E. Hill, Chairman
Mr. D. Anosike
Ms. S. Leonis

Mr. L. Brown
Mr. T. Collins
Mr. J. Williams
Ms. W. Black

R. Baughn sat in I. Thomas' stead, L. Sanford sat in W. Buetow's stead and C. Lang sat in M. Green's stead. Alternates also present were M. Caffrey and P. Beavers. 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. C. Wesley, C. Spears, J. Henderson and B. C. Gilmore were also in attendance.

1. The Chairman called the meeting to order at 9:30 A.M.
2. A roll call was taken which indicated that a quorum of Committee members was present.
3. The approval of the minutes will be deferred until the October meeting pending changes to be made by the Plan Attorney. (See revised copy attached)
4. Mr. T. Collins, Vice Chairman of the Investment Subcommittee, reported on the meeting held this date.

A report was given by Mr. Joachimi in which he indicated his desire to continue a manager's search especially in aggressive growth and larger cap growth areas. Mr. Joachimi distributed a chart to the Committee.

The Committee was also informed that Mentor distribution has been completed, and funding of RXR has been temporarily held up. Mr. Burke explained a question was raised by Northern Trust in regard to this investment. In the RXR investment there were two aspects. There was to be a note backed up by U.S. Treasuries for approximately 80% of the investment and 20% was to be handled by RXR dealing with derivatives. Mr. Burke wanted the Committee to understand about the derivatives. Northern Trust asked a question about RXR acting as both an

investment manager and also about its position in running a portfolio. After numerous discussions with the Plan Attorney's Office and Northern Trust, RXR procured last week a letter from the Department of Insurance of the State of Illinois stating they do not see this as a violation. Northern Trust is now looking at this letter and if that letter is acceptable to them, the Plan can proceed with funding RXR.

Mr. Hill stated if Northern is satisfied with the last documentation, the next step would be for the Plan Attorney to prepare a letter for Mr. Hill's signature. Ms. Leonis asked that RXR come before the Committee again to discuss derivatives. Mr. Hill wanted to make sure the Committee fully understood what the deal consists of so it does not end up with a Hart Barnhoft situation. Mr. Williams thought the Committee was not going to deal with derivatives at all. RXR will make another presentation at the next meeting. Mr. Joachimi felt comfortable with RXR, and stated derivatives are used by some bond managers.

The growth area managers are Weiss, Peck & Greer, NCM and Kenwood. The latter two are minority managers. The money managers were hired on a 5 year record and instead they have been given 7.25 years. Their 5 year and 7.25 year records can be looked at. None of them have satisfied the objective of 1% better than the benchmark. Money was added to Kenwood to make it a fairly sizeable manager along the way. Weiss, Peck & Greer changed managers a year and a half ago, and they have made a turnaround. Mr. Joachimi said they were all cost adjusted numbers on the chart. We are under-performing in most cases by more than 100 basis points (1%).

Mr. Joachimi spoke about how the Committee interviewed Montag Caldwell, Janus and MacKay-Shields along with Piper. Piper was hired. He told the Committee to look at the chart showing Montag Caldwell and MacKay-Shields. They are large cap managers and have relative good numbers for one year. Janus is a mid cap manager, more volatile but when you look at the long term numbers, Janus has a little better return probably because of the mid-cap. All of these managers have beaten our benchmark by our goal. Other managers can be looked at, but Mr. Joachimi said he would push for managers who provide value after expenses over the S&P. He felt it is the only type of manager that the Committee should retain.

Ms. Leonis felt it was important to start the manager search over again because she did not feel comfortable making a decision on three companies the Committee interviewed a year ago. She hoped there would be other managers besides these three to be interviewed. Mr. Joachimi replied there would be.

Mr. Joachimi discussed the aggressive growth side. He said it has already been decided to release 20th Century.

Mr. Joachimi stated that as soon as the Committee is finished with this manager search, the only other area where the Plan has under-performed is in the fixed income. The manager this Committee put the most money with is Amalgamated which is Goldman Sachs, and they have been the best performer of the bond managers. There are other managers in the fixed income area that need to be replaced, and we have to look for other people to manage that money. There is Amalgamated, Bears Stearns, Chicago Title, NCM Capital and Weiss Peck and Greer. Mr. Joachimi tried to get Mr. Maceo Sloan of NCM Capital to attend the meeting. He was not available and Mr. Joachimi said he is the person that has to come in to speak about NCM Capital because of some very severe changes in personnel that came about because he would not give them stock in the company. Because of this several key people left. Mr. Joachimi heard about these changes from individuals who left NCM. The Committee said Mr. Sloan should be available for his clients.

Mr. Joachimi said if the Committee wants an opinion on Ariel Capital their numbers are not stellar for 5 years. There have been some serious moves to change the firm back to what it used to be. This is a firm who received quite a bit of money quickly and their 5 year numbers are 200 basis points behind their aggressive peers and 300-400 points behind the index. Mr. Joachimi said the Committee has to start questioning because Ariel is starting to lose accounts and numbers do start to enter into this thing.

Mr. Joachimi recommended having a special investment meeting soon to look at a broad array of people in the growth and the aggressive growth area. He said he would look at names of people the Committee recommends. He said he is really going to push on the value added side. Mr. Joachimi said it is the Committee's fund, your retirement and the performance of the fund is what has to be looked at and soon the buy-out programs have to be looked at and asset allocation. There was a discussion about asset allocation. Mr. Hill stated if we follow the current asset allocation, we will have to take money from the international managers. He felt this made no sense. We should increase the percentage allowed to increase their growth.

Mr. Hill asked if there were any reports on the Weiss, Peck Ventures. Mr. Ross said one of the highlights was the Plan received the proceeds of the sale of the CIENA shares which was \$9.9 million, and recently transferred that money into the cash account. Mr. Hill said the venture is still a risky business and the Plan needs to be prudent about it. It has been a fantastic investment he said. Mr. Joachimi said historically in true venture capital out of 10 investments, you are lucky if one is a home run. Mr. Joachimi said you have already hit on one so you are ahead of curve.

Financial Report - Wayne Ross then turned the Committee's attention to Report of

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 August, the performance for the total fund was -2.21%, and the value of total assets of the Plans as of August 30, 1997, amounted to \$1,664,747,647.

Mr. Ross spoke about Ark Capital and their investments; one is Dock's Great Fish, a food retailer, and the other one is in Nina International, a nail product company. The Chairman would like Ark Capital to come to the meeting in October.

Mr. Ross will ask the auditor and actuary to come before the Committee to discuss their reports.

Mr. Hill said Mr. Joachimi will bring a list of money managers, and the Committee will choose who we want to see. The money managers will probably appear before the Committee at the November meeting.

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

- 5. Mr. Williams, Vice Chairman of the Real Estate Subcommittee, reported on the meeting held this date.**

Mr. Williams reported the sale of the 635 Remington property. The original cost of the building was \$2,600,000. The latest appraisal was \$1,825,000. The offer was \$2,200,000. The Plan Attorney said the contract is signed, and we are in the period of due diligence and should close by the end of the year.

Mr. Grant Berlin of Townsend reported on the second quarter of 1997. At the end of the quarter, the Plan had a net asset value of approximately \$94 million. In addition, there were about \$40 million in remaining commitments namely, \$25 million to Capital Associates and \$15 to the Commercial Net Lease.

Mr. Berlin announced that after two years of negotiations, the CNL transaction has funded. He explained to the Committee how CNL works. There are 9 or 10 identified assets. You do not have a drawdown schedule. It is a \$15 million investment and you make money as of day one. CNL was funded September 17.

For the quarter, the portfolio slightly lagged the NCREIF Property Index. The portfolio gross return was 2.4% versus the index of 2.7%. For the year the portfolio under-performed the index 8.2% versus 10.7%. One of the major reasons for that performance is the high concentration in the Midwest. The Midwest has a lower volatility in terms of regional performance and will outperform the index in times of recession and under-perform in times of positive growth in the real estate

During the quarter \$10 million was committed to the RREEF Venture Capital Fund, a high yielding, high risk, high return fund.

RREEF USA III is in liquidation and the Plan has about \$8.6 million left. It should be totally liquidated by the end of 1998. Mr. Hill would like to have a summary of what the original investment was, what the total return was, etc. Mr. Berlin said they would get this information for the Committee.

Meridian Business Campus - RREEF completed the sale of the speculative building and had intended to building another speculative building but has since put those plans on hold. The market is a little bit soft. They are in the process of selling two parcels of land. One is to Menard's for \$2.5 million. A pension plan is looking at building a 55,000 square foot office building. They are looking at buying this parcel for \$1.1 million

A.C.S.S. Dallas Co-Investment - 8 of the buildings have been sold. Two additional buildings are under contract. The sale should be finalized by May, 1998.

Kennedy has started the development of two new industrial buildings for which the Plan approved additional funding.

711 Jorie Blvd. - RREEF has finalized the marketing package. They are asking \$28 million. McDonald's is most likely out of the picture.

645 Remington - RREEF anticipates closing by the end of year. The contract price of \$2.2 million is 22% above the current carrying value of \$1.8 million.

After the disposition of the 3 RREEF assets; 645 Remington, 711 Jorie and Elk Grove, the Plan will have \$40 million left to fulfill the real estate allocation which at the present time is frozen at \$150 million that includes additional commitments to Capital Associates and RREEF to invest. Mr. Hill had a question whether this \$40 million is reinvestment money or does it include new money added. Mr. Berlin stated it is a combination of both so it is probably closer to \$25 million. The Plan Attorney asked if there was any potential area they would put the \$25 million. Mr. Berlin said they would look at public REIT'S. The funding schedule would be a much shorter time table. The rate of return for REIT'S would be from 15% to 17%.

Mr. Lang suggested we put more money in equities and less in real estate.

On a motion by Mr. Brown, seconded by Ms. Leonis, the Committee unanimously approved the Real Estate Subcommittee Report.

6. Mr. T. Collins, Chairman of the General Administration Subcommittee, reported

on the meeting held this date.

Mr Collins requested approval of items a through f.

Mr. Forte said as of October 1, 1997 there were 1,043 taking their pension under the incentive program. Mr. Forte informed the Committee that approximately 520 are left in the first window of the incentive program.

There was a discussion about Raymond Hendricks who is on disability pension. He was in jail at the time the Committee sent out letters asking for doctor's statements, etc. from disability pensioners. Recently, he went to the Mart and was found unable to return to work. He was taken out of payment while he was in jail because the Pension Office could not get a doctor's statement. Mr. Forte asked the Committee what should be done regarding him. Mr. Collins asked what the Plan's obligation was. The Plan Attorney said according to the provisions of the Plan, Mr. Hendricks was tested for disability as a diabetic. He was unable to be tested for a time because he was incarcerated. Now he is available and has been tested again and found to be disabled. As the Plan Attorney reads the Plan, Mr. Hendrick is entitled to catch up on his benefits. He pointed out to the Committee that there are instances where individuals may be gone for a long period of time and it is not possible to get to them for medical testing or they do not come in for testing and disability payments are made. The Plan attorney suggested the Committee adopt a rule calling for more frequent testing of disability pensioners, but there could also be provisions if an individual is unable to come in for medical tests. In cases such as incarceration, the Committee may wish to have an abeyance of those payments and not pay at that time because the person could be out for a long period of time for some crime and yet the Committee is paying benefits for that time. Mr. Burke suggested the Committee might want to give consideration to a rule calling for periodic medical testing, and if the person does not come in, there would be no paycheck. At the present time, we do not have such a rule. Mr. Collins wanted to know if there was any dissent on first the fact that Mr. Hendrick's is owed some back pay as well a need for a rule in the future that would discuss this type of concern. Mr. Hill agreed.

Mr. Hill and the Committee discussed this situation. He stated how Mr. Hendrick had 16 or 17 years service and if an active employee was put in jail, he/she would be fired. Ms. Black spoke to Mr. Hendrick mother and as best as she could ascertain he was put in jail for disorderly conduct. His mother said he did not have an alcoholic problem but has a mental problem.

Mr. Hill asked if the rule change the Committee is discussing, needs to be broader.

Mr. Burke said that would be one way of tightening up by calling pensioners in for testing. Mr. Burke said it is not a rule but a 241/308 provision in the Plan. The Plan

is an entitlement for disability. If a person is disabled, they get a benefit. The matter is the person should be periodically tested to see if that disability persists. Mr. Hill said some people play games with this disability and really are not. When someone is truly disabled, the Plan should be paying. Mr. Hill felt a rule change, as recommended by the Plan Attorney, should be implemented.

The Plan Attorney explained that many Plans use what is referred to as the "Bad Boy Provision." If a person is found guilty of wrongful conduct, they will be punished. Many of the courts have thrown that out. The Plan is narrowly defined as to the reasons benefits can be taken away. It has to be something against the Authority. This is not a rule but a 241/308 negotiation with the Authority. If the provision is to be broadened in an attempt to address incarceration, there might be a challenge in the sense of the "Bad Boy Provision." The Plan Attorney was asked to work up a provision for review.

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

7. Old Business - The Plan Attorney spoke about the two pending contracts from Wyatt and Ernst & Young. Mr. Hill had held up signing their contracts at last month's meeting because he was a little concerned by the report that they were reluctant to do a report for the Committee on soft dollars. Mr. Ross called both firms and they said they would be more than willing to make the report and said that it was a misunderstanding.

On a motion by Mr. Collins, seconded by Ms. Leonis, the Committee unanimously approved the contracts for Wyatt and Ernst & Young for two years from October 1, 1997 to September 30, 1999. The Plan Attorney told the Committee for their information that the fees for Wyatt for the first year will be \$38,000 and fees for the second year will be \$38,800. Historically, the fees have been running in the range of \$35,000 to \$42,000. They are requesting a fee increase and the last time one was requested was 1993. The Ernst & Young contract for 1995 cost \$38,700; 1996 cost was \$39,500. They are proposing an audit cost of \$40,300 for 1997 and for 1998 an audit cost of \$41,100.

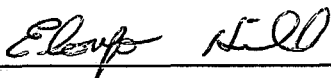
8. New Business - Mr. Lang discussed the asset allocation and thought it should be looked at. He felt we should not put the \$25 million in real estate. He said we are getting lower rates of return on real estate than we are in other markets. He said we need to generate higher rates of return. He is concerned and felt we should be making as much money as we can in this particular market. He would like the Committee to take another look and not invest that \$25 million into real estate. Mr. Hill said that is something we will talk about when they come back recommending investments, but he felt the Committee should keep in mind the whole idea of asset allocation mix is that it is designed to balance the fund out. There was a discussion

about the allocation mix. Mr. Hill said it has not been decided where to put the \$25 million and at the special meeting this will be discussed.

9. Financial Report - See number 4
10. Executive Session - None
11. The Committee unanimously agreed to adjourn at 10:10 A.M.



James Forte



Chairman,
Retirement Allowance Committee

Dated: Oct. 21, 1997

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