AGENDA

FOR THE 585TH RETIREMENT MEETING OF OCTOBER 21, 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 584th Meeting held September 23, 1997.

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) Hasan Abed - #4648 - (disability) - request for retro-activity to 10-01-97.

      (ii) Yvonne Reed - #17708 - (disability) - request for retro-activity to 10-01-97.

      (iii) Guadalupe Zavala - #17563 - (disability) - request for retro-activity to 10-01-97.

   d) Presentation of Death Benefits for approval.

   e) Presentation of Refunds of Contributions for approval.

   f) Presentation of Bills and Remittances for approval.

   g) Bobby Haney - #23782 - 30 days extension to repay refund of $6,234.45 has expired - new seniority date for pension purposes only - January 4, 1996.

   h) Franklin Spring - #D3228 - returned to duty - 10-17-97.

   i) Rick A. Hawk - #D3272 - returned to duty - 10-17-97.

7. Old Business

8. New Business

9. Executive Session

10. Adjournment

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY

The 585th Meeting of the Retirement Allowance Committee was held on Tuesday, October 21, 1997, at the Northern Trust Company, 50 South LaSalle Street, 6th Floor. The following were in attendance:

Mr. E. Hill, Chairman
Mr. W. Buetow
Mr. D. Anosike
Ms. S. Leonis
Mr. I. Thomas
Mr. T. Collins
Mr. J. Williams

L. Sanford sat in M. Green's stead. Alternates also present were L. Morris, C. Lang, M. Caffrey and P. Beavers. J. Forte, W. Ross and C. Lewis of the Pension Office Staff were in attendance. Ms. Joy Tapalla of Northern Trust Company was present. Mr. R. Burke of Burke, Warren, MacKay & Serritella was present. Messrs. J. Guerrero, C. Wesley, C. Spears, J. Henderson and B. C. Gilmore were also in attendance.

1. The Chairman called the meeting to order at 8:30 A.M.

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

3. On a motion by Mr. Williams, seconded by Mr. Morris, the Committee approved the Minutes of the 583rd and 584th Meetings.

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

   Ark Capital gave a presentation on the investments it has made.

   A report was given by Mr. Joachimi concerning the equity manager and fixed manager involvement. The discussion was highlighted by the meeting with the Actuary Watson Wyatt.

   In the aggressive growth and growth area the Plan has 7 managers. Only one of those managers has beaten the average for a 5 year period, and that is Foster Friess. The 5 year numbers show none of the managers in the growth area beat the index according to Mr. Joachimi.

   Mr. Thomas asked if he was recommending that they be replaced to add some value to the plan.

   Mr. Joachimi replied we have given them time for their style to work and it has not worked. It has cost the fund money and the pressure on the fund will get tougher not easier. The parties to the Plan are putting in less money and there are more requirements for that money, including buyout programs. The fixed component was increased last time. However, the Plan was closer to 100% funded than it is now. The Plan should get more aggressive rather than less aggressive. In other words more equity, more alternative equity, more international equity, etc. The asset equity allocation, cannot go lower than it is right now 65/35.

Mr. Williams then spoke about the material handed out by Mr. Joachimi. These money managers had 5 years, and they under-performed and their peers have out performed them. The Committee needs to make some moves to bring the Plan on the same level with pension plans around the country.

Ms. Leonis stated that if notice was given to these managers to improve and they did not, then we should replace them. She just wanted the Committee to keep in mind that an option to improve has been given to these managers.

Mr. Thomas said we have a consultant with a document showing that 5 years ago the money manager was going to do xyz and it has not. The Committee would be charged with discrimination if A,B,C and D are in the same category, and D is kept. According to the actuary, a complete overhaul is needed.

Ms. Leonis wanted to talk about growth. Kenwood is a minority firm. I do not know anyone from Kenwood, but we do not have minority firms and that is my plea.

Mr. Hill explained that Kenwood was hired for $500,000 and was given $4.5 million more. They were hired under our emerging manager category. It is unfair to rate them the same way as a major firm . They should be in a separate category. NCM and Ariel are minority owned but they have graduated out of that emerging category because of their size.

Mr. Williams stated in the aggressive growth we have one manager, Foster Friess, that's carrying the load. If the others are under-performing, the Committee is doing a disservice to its members and we cannot continue to allow that to happen.

Mr. Buetow asked what happens if a money manager is called before the Committee that is not performing well, the manager changes everything about its management staff and improves. This is a question that the committee has to consider . It does not impact the 5 year numbers because sometimes you do not catch poor performance until 2 or 3 years later. The Committee has already voted on 20th Century, and $70 million in cash waiting to be invested. From the fiduciary standpoint, the Committee has to change but still commit to what we have already voted on and move forward.

Ms. Leonis asked if a company did turn their numbers around do we give them another 6 months and if those numbers are not dramatically different than they are today, will they be replaced.

Mr. Thomas stated that he wants everything that is discussed in the minutes. If we do not follow the recommendation of our consultant, and something happens to that plan, then those individuals should stand alone in some kind of lawsuit or if an investigator or the federal government comes in. If any participant files a complaint then we as a fiduciaries are liable. I am not ready to lose my house or pension. I'm asking for a roll call vote and I want that in the minutes. The individuals that feel they don't have to follow recommendations vote your conscience. The ones that want to protect themselves vote the way you should as fiduciaries.

Mr. Hill stated that everybody for the record, should have an opportunity to understand from counsel some of the concerns raised, have a chance to voice their opinion and understand the history. Legitimate concerns about the credibility of the Board have been raised. There is a straight forward investment policy which says we are looking for a minimum of 1% return above the peer group. As fiduciaries we have an obligation to review consistently and take action based on some solid issues. This Board chose, with the acceptance of the consultant, rather than fire them to bring those firms in to hear from them why they were not meeting their obligations and what they intend to do to start meeting their obligations. Since the time they came in and started performing at the rate that we expected, the same way we would a new firm if we hired them today Mr. Hill felt he would have a problem dropping those firms. If they don't perform at that rate, they should be gone. I want people to have a chance to be on record if they want to say something as far as their vote.

Mr. Anosike said he is unable to make decisions for a number of reasons. The history that you eluded to, he does not have the benefit of, in terms of who have been extended additional time or if a company was hired under different ground rules. To take that information and review it would enable him to make a decision.

Mr. Collins asked if the Committee is going to give managers consideration or the members of this Plan consideration. If we are looking for 300 hitters then we cannot reward a person who has turned things around and still is not a 300 hitter. If we do, the philosophy we're using is not with the members in mind, but the manager himself and that is not the right approach.

Mr. Hill asked for example what if he hits 300? That is not going to make his average over the last 4 years come up to 300. Would you fire him? Mr. Hill asked counsel to comment because there are some real serious issues that were raised. I would like Mr. Burke's comments to be part of the minutes as it relates to fiduciary responsibility.

Mr. Thomas asked the Plan Attorney if one group of fiduciaries says let us keep a manager and our consultant has told us that this manager is not doing his job and someone files a complaint, would the fiduciaries that wanted to replace the manager have just a much responsibility as the one that said lets keep the manager.

The Plan Attorney replied no. There would be a difference. The members of the committee are fiduciaries. They have a responsibility to select wisely, to monitor the performance, listen to the consultant and then to vote their best judgment. There is nothing in the Investment Management Agreement that says the managers will be held to a certain performance over a certain measuring period. However, the Committee historically has given adequate time and the number 5 years has come up in that discussion. The Committee can terminate any of these managers on a 30 day notice. You are not locked in to any of them. You have to look at each manager individually and then make your best call when you have the facts in front of you . These managers are not performing on a 5 year basis and your consultant recommends that you take action. That's a serious communication coming to you as fiduciaries and you should respond to that. We either say we agree or this is quite serious and I want to think about this or you are saying you are prepared to go contrary to that advice and still vote to sustain. This does not mean if the stock market goes up or down you are personally responsible. But you are held to having to defend that action should a challenge come. You may have reasons to defend it in your own mind such as you are seeing recent improvements or you want to give a little more time. You will have to speak at that point in time. But, be advised you will be speaking in a defensive mode. Because when your consultant comes and tell you 5 years is what we talked about, their not up to par, they should be replaced. Then you are on the defense to maintain why you went contrary to that advice.

Mr. Joahimi said that everyone of these people have been before the Committee except for Chicago Corp. WPG , NCM and Ariel we actually took money from and told them we weren't happy with them, and they made some changes.

Mr. Thomas said the bottom line is, I have a fiduciary responsibility to take care of this Plan. I have a lot of friends that are on these lists. Do I carry out my responsibility? Do I put myself in a position to be probably sued by somebody that knows that we are not doing our job. You have to ask yourself, would you let these people invest your money if they were performing exactly the way they are performing for the Plan. No, I would not put $100 dollars out there, it is invested then cut down to $70 then $30. As a fiduciary we have to put ourselves in the same mode as these participants to carry out our responsibility.

Mr. Hill asked what has been the performance of the manager we brought in since the day they came in. Mr. Joachimi replied, Weiss Peck & Greer has improved but not enough. Ariel was in and they have improved, but not to the index. Mr. Hill said they were in a year ago and if I'm looking at their performance over the last year it is 30.7. Which of these indexes are applicable to Ariel. I see 2 indexes, one 16.3 the other is 34.5. Mr. Joachimi said it is really a mixture of the two because they are buying larger cap stocks. Mr. Hill said if there is a mixture of the two over the last year then chances are they have performed at what we have hired them to do. Mr.

Joachimi said over the last year they have. Mr. Hill stated, then that is the problem I would have in replacing them if that's true.

Mr. Morris said that Mr. Joachimi said that we have failed. He just told us that all of the managers are under-performing. It basically tells me that we have not done our job. We are losing millions and millions of dollars. I look at $37 million dollars lost and the numbers over the 5 years that we have discussed with these managers. For years Mr. Joachimi told us that we had too many managers. Now he is telling us that these managers are not performing. Are we going to start doing what we are suppose to do. Are we just going to sit here and let these slick guys pat us on the back.

Mr. Thomas said Mr. Anosike wants to defer because he does not have enough information. He is a Committee member and needs a little more time to look at the situation. When we come back again we should be ready to replace some managers.

Mr. Hill said that he will not support firing Kenwood. Ms. Leonis said if we are going to do it individually then the Committee should vote on it. Mr. Hill then asked Mr. Joachimi to go to the fixed. If we are going to end up with a vote or special meeting, lets understand what we are going to be dealing with. Mr. Joachimi explained when we first looked at fixed income 6 years ago we had stocks, cash and real-estate. We felt there was a good reason to have something other than cash. That is how we started our fixed income. We recommended 3 managers. You see there are really 7 managers. Everybody here is a participant in the Plan and it is your money. To hire somebody because you think its going to make somebody happy that is your decision. We had 7 managers we fired 2. Both of them were emerging managers at the time, Lazard & Wedgwood. We have 5 left. Two of these managers are long term. They have to do as well as the leading government corporate managers. Two others are intermediate term. They have to do as well as the Lehman intermediate government corporate. There were comments by Mr. Joachimi regarding investment grades and the policy statement. In that case both Chicago Tittle and Amalgamated Trust beat the average by better than a half point.

Mr. Thomas asked, if Mr. Joachimi is going to make recommendations. Mr. Joachimi replied, I have absolutely no problem in replacing Bear Stearns, NCM and Weiss Peck & Greer.

Mr. Thomas said, Weiss Peck & Greer and NCM are our worst managers we have and Bear Stearns. He is making recommendations that we replace them.

Mr. Hill wanted to make sure that that is on the record that none of them met their goals and the recommendation of the consultant.

Mr. Joachimi said the Committee set out to have 2 intermediate managers and 1 long term manager. We ended up with 2 long term and 5 intermediate. It was the same amount of money but we just gave little bits to everybody. We can meet our goals and not go outside of Chicago. Three of those managers that under-performed are not from Chicago.

Mr. Hill said the reason he would not recommend firing them all is that if we looked at Amalgamated over the last year and over the last 3 years, they exceeded what we asked them. Over 5 years they did not. Why would we want to fire a person who is meeting the numbers and doing what we want them to do over the last few years. Why take a chance on somebody new and ask them to do the same thing they may or may not do.

Mr. Thomas wants the record to show that if people are not doing what they are hired for they should be replaced. If I am not doing what I am suppose to do my members are going to fire me. If we are not going to follow the recommendations of the consultant and start making a lot of excuses then we do not need Mr. Joachimi. We hired him because he has the knowledge and the expertise about what we are trying to do as a Committee. If Mr. Joachimi has a recommendation we should look at it, weigh everything and do what we have to do. Follow his recommendations.

Mr. Buetow stated that Bear Stearns has not performed and has been officially put on probation. In the equity involvement you have already said 20th century should be replaced. Your fund is at $1,710,000,000 rounded, but you still have to find something to do with the dollars that you're doing away with. You have $70 million sitting and you are getting 4.35% on an annual basis. Who are you going to give it to. I do not want this money in a cash pot at 4% annually.

Mr. Thomas asked would it be better off in an index fund. Mr. Buetow replied, at the present time, yes. The Committee would be better off doing anything than putting it in a stiff fund in the bank to get 4.35%. We have to weigh all of these things and not take money away if you aren't going to do anything about it. (more discussion)

On a motion by Mr. Williams, seconded by Mr. Thomas, the Committee unanimously approved deferring taking action until Mr. Anosike has an opportunity to review everything so he will have a comfort level with some of the things that the Committee have discussed.

Mr. Joachimi said that when we decided to do away with American National we put it in a index fund. If you terminate managers you cannot treat it like you treated that index fund. You used it to meet bills. The only reason it worked for you is the market was good and your percentages kept going up. If you had done that and the market had been flat you would have been reducing your equity exposure by the size of that fund. That's not what you should do. If we do some liquidation and put it in an index fund it has to stay there until we decide who we are going to hire.

Mr. Collins said, One of the best performers was Dreyfus that we reviewed at our special meeting last week. They also were the performers on a rolling 20 month basis that continually out performed the S&P. Mr. Collins spoke with the Chairman and Vice-Chairman regarding this and each feel comfortable with Dreyfus. Why leave money in a stiff account when we can give them that money and have it working for us as quickly as possible.

Mr. Hill asked the Plan Attorney to give an update on RXR as it relates to Northern. Counsel explained the RXR structure was reviewed by Northern and RXR has come back with a substitute structure. The substitute structure would be as follows: The Committee would nominate Credit Swiss, the large international finance firm as the investment manager for RXR. The Credit Swiss would handle the $20 million of the fund to purchase U.S. treasury backing up a subordinating note. Then Credit Swiss would retain RXR who would handle the $5 million of the portfolio in regard to their derivative training. Mr. Thomas stated his discomfort with derivatives. The Plan Attorney then explained the structure that was initially proposed. Northern said it was uncomfortable with RXR wearing both of those hats. That is what we did not like. That is when RXR went out to get an opinion. Now because of the process slowing down, RXR said look, we will step back from handling the whole portfolio. You retain Credit Swiss as investment manager. Credit Swiss will retain us as investment manager. That is a revised structure. Presumably that structure might well be approved by Northern. Credit Swiss is first class operation that has historic performance.

Ms. Leonis said if they have a new structure they need to come in and make a new presentation to us. RXR spoke to us at our special meeting but he did not speak about the new structure, nor did we meet anybody from Credit Swiss.

Mr. Hill said Northern is not comfortable with the original structure. It is important to have this on record so that the Committee is clear. The Committee did approve RXR already. But, it approved it under a structure that Northern is not satisfied with. If they are going to change the structure, it will require the Committee to vote again.

Financial Report - Mr. Buetow then turned the Committee's attention to Report of Deposits, Disbursements and investment in the Trustee Summary and noted that for the month of September, the performance for the total fund was +4.20%, and the value of total assets of the Plans as of September 30, 1997, amounted to $1,687,962,601.

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

5. Mr. William's, Vice Chairman of the Real Estate Subcommittee, reported that there was no meeting held on this date.

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 i.

The Actuary made a presentation regarding the evaluation as of January 1, 1997.

Mr. Forte said as of November 1, 1997 there were 1,092 individuals taking their pension under the incentive program.

Mr. Morris stated that the contract said you apply for the incentive program by 2/28/98. He then asked the Plan Attorney if the office has the right to amend to March 2, 1997 or any day because he is saying that they do not have that authority. Mr. Forte explained that Mr. Martin Pollack extended the date because the 28th is on a Saturday and the office is closed. That is why Monday which is the 2nd is the last day.

Plan Counsel said the terms of the Early Retirement Program were set in the collective bargaining contract. We do not have the authority to change those dates. We administer the plan but we only administer what is given to us. That's the date that was given to us.

Mr. Williams stated that people do not have the unilateral right to make decisions that is beyond the contract. Contract says the 28th, so it should be the 28th. If someone did something other than that, they should be made to go back and correct that. Because that was beyond their jurisdiction. Mr. Hill agreed and understood the intent with Mr. Pollack but felt that it could have been handled in a couple of ways. There could have been some facility made where people could have dropped it off on the 28th for his office. So when he arrived Monday morning it is there or the letter could have said something about Postmarking by the 28th and would be accepted on the 2nd.

Mr. Thomas asked if Mr. Pollack talked to anyone before he made the decision. Mr. Hill replied not the committee.

Mr. Forte suggested that the same package be sent out with a corrected letter to everybody that is in the second window have them sign for it at their work location and get a receipt. Mr. Collins added that the letter should include some of the considerations that the Chairman mentioned on how to deal with the 28th.

Mr. Hill asked the Plan Attorney to get involved with Mr. Forte and Mr. Pollack to make sure that it gets corrected and does not compromise the program, because the program cannot be compromised no matter how good their intentions are.

Counsel suggested the Committee should send out clarifying correspondence stating the date is February 28, 1997 and try to make arrangements with someone at the Mart to accept it. That is what they have done on every other date.

Mr. Collins brought the Committee's attention to a proposed rule change that Plan Counsel drafted. Plan Counsel reiterated the disability rules in cases of inability to have a medical exam in instances when people initially qualify for disability.

If for a variety of reasons a person does not appear for medical examination. The question was; does this Committee continue to make payment of medical disability benefits. There was further discussion; then the Committee approved the change to Rule #1.

Mr. Collins said that Mr. Buetow has a letter from Mike Bruen and his people who are responsible for regulating retirees from the Incentive Program. The letter inquires about the retirement dates for James Forte and JoCarol Huston. The Committee defered it for later.

On a motion by Mr. Williams, seconded by Mr. Lang, the Committee unanimously approved the General Administration Report.

7. Old Business - None

8. New Business - None

9. There being no further business, the Committee adjourned at 11:45 a.m.

James Forte
James Forte

Elmo Hill
Chairman,
Retirement Allowance Committee

Dated: November 25, 1997