

•
•
•
AGENDA

FOR THE 593RD RETIREMENT MEETING OF JUNE 23, 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 592nd Meeting held May 26, 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) Alfred B. Jones - #4814 - (disability) - request for retro-activity to 06-01-98.
 - (ii) Eloise Glass - #13396 - (disability) - request for retro-activity to 06-01-98.
 - d) Presentation of Death Benefits for approval.
 - e) Presentation of Refunds of Contributions for approval.
 - f) Presentation of Bills and Remittances for approval.
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

(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, JUNE 24, 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.



The Secretary's set of the April Meeting Minutes were more extensive than the transcript because the machine did not pick up everything. It was a defective machine. What the Committee will read in the transcript is only a portion of what the Secretary picked up because she uses the machine and takes shorthand. She blends the two together when she prepares the minutes. When a transcript is prepared, you cannot tell the author of the comment. The transcript says male voice, female voice. That is all the court reporter can pick up because they do not know who made the comment. The Plan Attorney said it brings to the Committee a question that should be addressed. This transcript of 112 pages of the April meeting is the entire commentary that was on the tape. The real concern is going forward on the minutes. The minutes can be done in a few different forms, and the Committee has discussed this. You can have a set of minutes that speak only of actions and motions made, and move onto the next item or you can have an entire transcript or you can go to a third version where people synopsize arguments and put them into place. Historically, we have never had a problem with meeting minutes. The difficulty we are having now is to the content of them because you will recall individuals being present at the meeting stating they wish their comments to go on record, and the Secretary will do her best to take down their comments to go on record. The Committee needs to decide on a course of action. Is there going to be a court reporter to take down everything that is said, will there be a more purged version of minute meetings with just actions taken and votes, etc. It becomes a difficult process for the Secretary and the Executive Office to figure out what to report in the minutes because all members have the right to state something for the record. There is a need for a sense of direction so the Secretary can follow through and the Plan Attorney can be helpful to them. This is a transcript of the April meeting but it is not complete and the Secretary's minutes go beyond this. There are certain things in her minutes which are not discussed in the transcript. Mr. Burke said he has the tapes for February and March and the cost would be another \$400-\$500 each for the transcript of those months. If there are some items that individuals are uncomfortable with in February and March he suggested he would listen to the tapes and find where that is discussed. Otherwise, we are in a position where we are not approving the minutes and we are not having a track record which we need to have.

Ms. Leonis felt they should not pass the April minutes until they look over the transcript. Mr. Thomas and Mr. Kallianis would like copies of the tapes.

For the record, Mr. Burke would like to address at the July meeting the February, March and April Minutes.

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

Mr. Kallianis said that Mr. Collins and himself came up with a list of 11 money

managers to choose from. The managers are:

LARGE CAP

Janus
Cadence
Montage Caldwell
MacKay-Shields

SMALL CAP

Dreyfus
Stein Roe

FIXED

Brinson Partners
ABN AMRO
Harris Bank
Chicago Asset Management
Weiss, Peck and Greer

In terms of dollars, we are speaking about \$70 million small cap based upon what the market has done the last couple months give or take \$7 million. Large cap is \$70 million. Fixed would be approximately \$106 to \$110 million. All of the money managers that were interviewed had beat the benchmark that the Committee had set.

It was decided that some decisions would be made next month on managers. It was decided that Mr. Joachimi would come back to the July meeting and give a brief presentation on each of the possible managers and hopefully a decision will be made at July's meeting.

Ms. Beavers questioned Montag Caldwell being on the list of managers to consider. She was not at the Special Investment Meeting and questioned if something was presented that changed the Committee's mind as that they were reconsidering Montag again. She said the Committee in the past had issues with them, and now they are on our list of managers to consider. Mr. Kallianis said we took the best performers, small cap and large cap. He also said they looked at the summary from Mr. Joachimi and picked the top performer in each category. Some managers were not accepting additional investment money. Mr. Thomas said he still had some concerns about Montag Caldwell. He said the Committee at that time, Management

and Union, spoke very loud about them. Mr. Collins asked Ms. Beavers if she had been given some directive as to Montag Caldwell namely to look into some of the practices to see if there were some problems with that particular group. He recalled a document in which she answered those concerns.

Ms. Black asked how many managers would be chosen out of each of these categories. Mr. Joachimi said one. Ms. Black asked Mr. Joachimi to give his recommendations and why he feels this person outweighs the other candidates and give it to the members prior to next month's meeting. Mr. Joachimi said he will do that, and he stated the managers are on the list because they are good. He can tell who he thinks is good but he wants the Committee to make their own decisions. Everyone is on the list because they are good including Montag, who is owned by Chicago Title. Everyone on the list is worthy of being selected. There is only one manager who he did not like because of the way they presented themselves.

Mr. Collins asked if performance is good should the presentation then wind up being how we make our decisions. He felt presentations can go either way but the numbers speak for themselves. The question was asked, "Does the presentation or the numbers outweigh the presentation?" Mr. Joachimi said If you are spending more time with the managers, the presentation is the most important factor. The performance will be there if you are going to become more involved with the presentation. What really comes into play is numbers, validity and length of those numbers and how they do it. Mr. Joachimi said he spends a lot of time on that.

Mr. Williams said that some time ago they divested in South Africa. He felt that is something they might look at beyond the numbers.

Mr. Burke said for the record, is Mr. Joachimi recommending everyone on the list. Mr. Joachimi said he is comfortable with everyone but that one manager. Mr. Burke asked if he was or was not recommending considering that manager. He said he would feel better about a more steady return and it is the volatility about this manager that he did not like. He reminded the Committee that they just fired 20th Century who had huge volatility.

Mr. Joachimi will return next month to do a presentation on each manager on the list. Ms. Black said she would not consider anyone that is volatile all the time.

Mr. Thomas said we should look at the numbers, ethnic make-up. If they represent themselves as a minority manager, he wants to be sure they are a minority. We would like managers that keep in touch. We have managers we never saw until the last year. He would like a manager who he can call.

Mr. Anosike recommended that the Committee take a position at the next meeting.

Mr. Joachimi said regardless of the direction that the Committee takes, it has been decided to release NCM Capital and that is about \$70 million and it has also been agreed to release 20th Century which is also about \$70 million. If we do not make a decision on managers, he recommended the Committee liquidate the managers and spread the money within the managers in that group.

The Plan Attorney gave an update on Mentor Investment. Northern has not completed due diligence.

ABN AMRO -- Ms. Newton said they do not outperform the S&P for the last 5 years, and they have not outperformed the median manager for that same period. There are very few managers that have outperformed. This does not mean they are not a good manager. Northern would not be uncomfortable approving them but want the Committee to be aware of the benchmark.

Mr. Joachimi was asked how he felt about that. As he had said in the past a good look should be taken. It is in the minutes where it is suggested we take a very hard look at this money manager. Mr. Joachimi said they are still on his watch list. Mr. Burke said if there is an ongoing concern, the manager can be terminated by the Committee.

Ms. Leonis asked about Weiss, Peck & Greer. Mr. Joachimi answered that they were purchased by the same group that purchased RREEF.

The Plan Attorney said Northern Trust would consent to the change of ownership regarding Chicago Corporation.

Ms. Newton has not received documentation from RREEF nor Delaware Investments, and she will get in touch with them and report next month.

The J.P. Morgan change in fee structure will be discussed next month by Mr. Joachimi. J. P. Morgan's fund is being liquidated. Mr. Joachimi said they never gave a specific time but the Fund is getting money back. The Fund made some money but not much.

Mr. Burke said Weiss Peck & Greer is requesting the Committee's consent to change of ownership. The Committee would then nominate Weiss, Peck & Greer to Northern Trust for consideration of due diligence purposes. Mr. Joachimi said they would recommend. Mr. Joachimi said it is easier to change over when it is a U.S. company going to a U.S. company but it is harder when it is international.

Mr. Thomas would like some time to digest about Weiss, Peck & Greer being taken over by a Dutch company. Mr. Burke suggested a copy of Mr. Joachimi's recommendations regarding Weiss be given to the Committee and it will be put on

the July agenda.

The Plan Attorney asked Mr. Joachimi regarding Northern Trust revised security lending program. Mr. Joachimi was asked to give his thoughts to the Committee. Northern Trust will be giving Mr. Joachimi some documentation. Mr. Joachimi felt it would not be a problem. He said as soon as he finished his review, he will give his recommendations to the Committee.

Mr. Collins brought up the fact that Northern Trust gave a talk to the Committee regarding changes on how we deal with our short term instruments. He was wondering what or how we should proceed.

The Plan Attorney raised some concern because Northern Trust acts as our trustee and passes upon retaining other investment managers. If Northern handles anything besides our short term funds, they are becoming an investment manager. If they become in investment manager, there is a conflict in his perception because they are overlooking themselves.

Mr. Collins requested that we consider the actuary's comments on our investments. Mr. Kallianis said he would put it on the agenda for the July meeting.

The Plan Attorney said Mr. Joachimi has looked at the Kenwood fees and has found the mid range fees to be okay. Kenwood is in the process of going from a special manager to a regular manager and has been approved by Northern. The issue is the fee structure. Mr. Joachimi said he has no problem with the new fee schedule. It starts with the higher fee and then drops. There is a lower basis point for million dollar charge. The Plan Attorney said it is in line with what other managers are charging. Kenwood's fee structure is 1% on the first million, 80 basis points on the next million, 70 basis points on the next 8 million.

There was a question about Ark changing its name from Ark Capital to Ark Direct and that there is quite a bit of inactivity. At the end of the quarter Mr. Joachimi said they had drawn down \$750,000 approximately and they are drawing down more money. With regard to Ark Capital, Mr. Ross will check in his files. He had heard there were a few things they were thinking of investing in but he has heard nothing further. Mr. Burke was asked to get a status report from Ark.

Financial Report - Mr. Ross then turned the Committee's attention to Report of Deposits, Disbursements and Investments in the Trustee Summary and noted that the past month's performance for the total fund was -1.24% and the value of the total assets of the Plan as of May 31, 1998 amounted to \$1,825,261,126.

In May, the Plan received \$6.8 million from J. P. Morgan and it was transferred to the Cash Account. There is approximately \$30 million left in the total fund. That

will cover ordinary expenses and a lawsuit. The lawsuit is with one of the initial sellers of the property which has to do with a divorce. They are suing J. P. Morgan but J. P. Morgan feel they have the upper hand in this case.

Weiss, Peck and Greer Venture continue to draw down on their Venture Capital Fund and the Fund receives distributions. After speaking to Mr. Joachimi we have sold all the stock distributions and proceeds are coming into the Cash Account. We have none outstanding. All of them have been sold.

Mr. Collins asked about the Stif Account. He wanted to know if Mr. Ross gets numbers from the Stif Account and if so, how regular. Mr. Ross said he does not see a report on performance. Currently, the monthly return is 54 basis points and year to date it is 2.77%.

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

(The following was discussed after the Investment Subcommittee Meeting and before the regular meeting)

Ms. Black asked to be introduced to Mr James D. Holzhauer, the arbitrator for management. She was not at the May meeting. Ms. Black wanted to know why he was attending the meeting. She said she was not used to an arbitrator sitting in on a regular meeting. Mr. Thomas felt it was intimidating to Committee members and also felt it was inappropriate to have the arbitrator there when things are discussed when there is litigation involved.

Mr. Anosike said the issue was discussed at the last meeting and the ruling of this chair was unless someone can point to something, Mr. Holzhauer will be here and he told the Union they are welcome to bring their arbitrator.

Mr. Williams stated the Chair does not make the rule; the body rules whether an attorney can or cannot sit in on the meeting. You can hamper this body from moving forward. You cannot just bring anyone in. Ms. Leonis said it is an open meeting. Mr. Thomas said because of impending litigation, he felt reluctant to have counsel present at a meeting. Before he would discuss certain issues he would call for an executive session. He is not going to express his feelings at all. He is going to ask for an executive session. Mr. Thomas did not think we should be discussing litigation.

The Plan Attorney was asked by Ms. Leonis whether it was a public meeting. Mr. Burke said they have always taken the posture that it was not a public meeting. We have not been challenged on this. We have tried to keep the records of this

Committee off the public record. It is not a public body. It is a body that represents the employees of CTA, union and management. This is not a branch of CTA. It is a separate entity into itself. It is not an open meeting.

Mr. Thomas said why else would Mr. Holzhauer be there other than to build a case. Ms. Black said she did not feel comfortable with the counsel present. Ms. Black does not remember a letter being sent to the union's arbitrator inviting them to attend the meeting.

Mr. Collins said it is a departure from tradition, and he is troubled by this and he does not like anyone moving forward arbitrarily simply because there is no language there relevant to unilaterally make decisions. The Committee should sit down and discuss this but to dictatorially bring someone in is different from the way we have always run this Committee. Why else would Mr. Holzhauer be here but to build a case. Mr. Collins said he felt uncomfortable with Mr. Holzhauer present at the meeting. We have a very capable attorney for many years to handle business of the Committee. He asked why now a departure from how we have done things.

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

Mr. Acosta discussed the special Real Estate Meeting that was held on June 16, 1998 with representatives of the Townsend Group. At that meeting the Strategic Plan for Real Estate Investments was discussed. We outlined a process for selecting new investment managers for the 3 different types of real estate; private core, value and Reits. At that meeting, it was discussed the process that Townsend would go through to identify prospective managers and bring a list back to the Real Estate Committee for each of these categories and we would go through a process similar to what was done with equity investment, interviewing managers and selecting in order to bring us up to 10% of real estate investments of our total portfolio.

The issue of extending the contract of Townsend, which is up at the end of June, was discussed. Mr. Acosta said in order to proceed with making future real estate investments, the Committee will have to make a decision on whether to extend their contract and the general terms. They are proposing a one year contract with a 3% increase.

Ms. Leonis suggested a month to month contract and no increase in their fee. Mr. Acosta will discuss this with Townsend. The Plan Attorney said any of the contracts the Plan has with consultants or advisors for a year of whatever the Committee always has the right to terminate these contracts with a 30 days notice.

On a motion by Mr. Thomas, seconded by Mr. Brown, the Committee unanimously approved a month to month contract with Townsend.

Mr. Thomas said most managers are not asking for an increase. He received a letter from Oppenheimer stating they are not going to increase but decrease. The market is so competitive so he felt the Committee had the leverage.

The Plan Attorney discussed the Elk Grove property. The buyer was not able to get a satisfactory agreement with the village of Elk Grove in regard to a hotel development and during the due diligence period, terminates their interest in the property so that property is on the market again.

The due diligence for the property at Lake Wacker expires July 10 at which time the Hines group that is purchasing it would be obligated to put up an additional earnest money deposit of \$750,000. It is possible for the Hines Group to extend that closing to October. One of the concerns of that property is the parking lot manager operating the facility at this time. Under the terms of the lease with the parking lot operator, if the lease is terminated prematurely as it would be in event of the sale to Hines, the Plan would owe approximately \$80,000 for the unamortized portion of the improvements which that operator put into the property. The Plan Attorney hoped the closing date will be some time this fall.

On a motion by Mr. Collins, seconded by Mr. Thomas, the Committee unanimously approved the Real Estate Subcommittee Report.

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

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

Mr. Forte discussed William Thomas, Thomas F. Kalata and John E. Hill and the arbitration award and how their pensions would be calculated. It was decided to discuss this in Executive Session. Mr. Burke told the Committee Mr. Forte wanted the Committee to vote on the approval of their retirement not the amount of their pensions.

On a motion by Mr. Baughn, seconded by Ms. Leonis, the Committee unanimously approved the General Administration Subcommittee Report.

7. Old Business - Ms. Leonis wanted a status report on the issue of arbitration for an Executive Director.

Mr. Williams said this is pending litigation and should not be discussed. Ms. Leonis wanted the record to show what the status is -- have we chosen

arbitrators on both sides, have we chosen a third party. Ms. Leonis said she does not work for CTA everyday and all she wants to know is what is going on. She does not want to cause any problems.

Mr. Williams said this should be addressed in Executive Session when Mr. Holzhauser is not present.

The Plan Attorney did not feel Mr. Holzhauser should be present at the Executive Session. He felt if the Committee is going to discuss arbitration, etc. he should not be present. He did not feel it would be appropriate for any arbitrator to be present no matter which side he is working for.

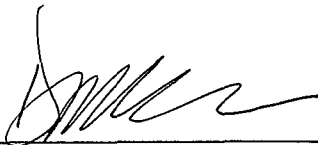
8. New Business - None.

Before the Executive Session, Mr. Morris discussed how the Chairman came in and forgot to take his hat off. We have always prided ourselves that we left our hats outside, and we came to the meeting to do good for the Plan. Mr. Anosike felt it was unfair to say that since he had spent one hour before the meeting trying to resolve some of issues we are facing. It is not true to say that. He felt at the rate we are going, it is not fair to blame one side. Mr. Anosike received information from Mr. Forte regarding contributions and he spoke to Mr. Thomas this morning. He is trying to resolve the issue.

The names of the members and alternates of the Retirement Allowance Committee were read off prior to the Executive Session.

9. Executive Session - The Committee moved to Executive Session at 10:25 A.M.

10. The Committee reconvened; there being no further business on a motion from Mr. Brown, seconded by Ms. Leonis, the Committee unanimously agreed to adjourn at 11:00 A.M.



Chairman,
Retirement Allowance Committee


James Forte

Dated: 7/28/98

f:\593june
July 8, 1998