

# AGENDA

## For the 596<sup>th</sup> Retirement Allowance Committee Meeting of September 22, 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 595<sup>th</sup> Meeting held August 25, 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) Clifton E. Collins - #29275 - request for retro-activity to 08-01-98.
    - (ii) Victor M. Collazo - #6330 - (disability) - request for retro-activity to 03-01-98.
    - (iii) Victor Martin - #7925 - (disability) - request for retro-activity to 08-01-98.
    - (iv) Joannie R. Wheeler - #7466 - (disability) - request for retro-activity to 08-01-98.
    - (v) Emma Williams - #15644 - (disability) - request for a one time payment for period during 03-01-98 thru 07-19-98.\*
  - 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

RETIREMENT ALLOWANCE COMMITTEE MEMBERS AND ALTERNATES

THIS IS TO ANNOUNCE THAT THE MEETING OF THE SUBCOMMITTEE ON GENERAL ADMINISTRATION WILL BE HELD TUESDAY, SEPT. 22, 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.



## RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY

The 596th Meeting of the Retirement Allowance Committee was held on Tuesday, September 22, 1998, at The Northern Trust Company, 50 South La Salle Street, 6th Floor Directors' Dining Room. The following were in attendance:

Mr. D. Anosike, Chairman  
Mr. L. Sanford  
Mr. M. Acosta  
Mr. J. Kallianis  
Ms. S. Leonis

Mr. I. Thomas, Vice Chairman  
Mr. L. Brown  
Mr. J. Williams  
Mr. T. Collins  
Ms. W. Black

J. Forte, W. Ross and A. Dungan of the Pension Office Staff were in attendance. Alternates also present were L. Morris, R. Baughn, R. Winston, P. Beavers, B. Rayford, and P. Anderson. Ms. J. Tapalla of Northern Trust Company was present. Mr. R. Burke of Burke, Warren, MacKay & Serritella was present. Messrs. J. Guerrero, C. Spears, J. Henderson and C. Wesley were also in attendance.

1. The Chairman called the meeting to order at 11 A. M.
2. A roll call was taken which indicated that a quorum of Committee members was present.
3. On a motion by Ms. Leonis, seconded by Mr. Brown, the Committee approved the Minutes of the 595th Meeting.

On a motion by Mr. Anosike, seconded by Mr. Thomas, the Committee approved the Minutes of the 589th, 590th and 591th Meetings.

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

Mr. Joachimi discussed the market value of the Plan.

Mr. Collins said an argument for using active managers is that at times like this they do not take the nose dive that the S&P does. He asked whether our managers have been able to outperform the S&P on the downside. Mr. Joachimi said some have and some have not. The smaller cap managers did not perform as well as the market. Some of your larger cap managers did better. By in large, what has changed the market is most of the European countries can now invest in our equities. There was a time they could not. If they have a choice between a small cap company and Coca Cola, they will, of course, put it in Coca Cola. It is a safe haven. What has happened recently is that these safe havens are now losing too. The Plan's market value he estimated to be down slightly at the end of the third

quarter. It will be less than it was at year-end.

Mr. Joachimi said we should not make any drastic moves. We have built a long term commitment to equities, and he did not feel the Committee should time the market.

Mr. Kallianis asked if we should be moving toward changing our asset allocation. Mr. Joachimi said the market has taken care of that a little bit. He said we were worried we had too much in equities. He said we may not have too much in equities. We have a collar on every portfolio and when it is plus or minus 5 over our target, we recommend balancing back to the underfunded asset. It is probably something we should have done here but this is different in a rising market. The funding back would have put it in fixed income, and fixed income is up. It is something we should use as an example to say we have to have some sort of structure here that we can implement. Everything we are doing is long term.

Mr. Joachimi said when he receives the September numbers, he wants to sit down with Mr. Kallianis and whomever and talk about whether we are on target. You may find we are closer to our targets. The target is 65% equities; 35% fixed. We are still probably 5% away. There was a discussion about asset allocation and the percentages we are at now. Mr. Joachimi said there should be some serious thinking about how much the Plan has in equities. Mr. Joachimi told the Committee to remember because of the study done by the Actuary, there is a feeling we would have to increase our stated target for equities. All of this can come together at the same time. At the end of September he would like to meet with the Committee.

Mr. Winston asked whether we should be revaluating our managers according to how they did. Mr. Joachimi said the longer term record of a manager has to be considered. If they changed their style, we would have to look at them closely. If someone going into a down market drastically changes how they did things, we would have to look at it.

Mr. Monagle said managers are measured relative to their benchmark.

Mr. Kallianis suggested that Mr. Joachimi get out the third quarter results based on what our asset allocation targets are versus what they actually are and the managers based on the indices.

Mr. Joachimi discussed the search for minority managers. He spoke about Alpha Capital of Detroit, a Black owned fixed income manager, who has a good long term record. They are a spin-off of another manager and were funded by that manager to become a firm by themselves. Mr. Joachimi said he would gladly check on any manager that the Committee gives him. Ms. Rayford will have a list for him in the

next week or so.

Mr. Kallianis discussed the results of the fixed income manager search and the results of the previous interview of managers. They are Harris investment, CAMCO, Brinson and ABN AMRO. Mr. Joachimi spoke about the Chicago managers. This study was started quite a few weeks ago and now Brinson is the best one. Mr. Collins said he recalled a letter from ABN AMRO about a suggested fee structure for our business. No one recalled this letter and Mr. Joachimi will check into this. Mr. Joachimi has used several of these managers with his other clients and he is comfortable with the Chicago managers. He will look at any other managers and check their numbers.

The next subject was Weiss Peck and Greer alternative products. They should perform very well. Mr. Joachimi said his policy of selling when we get a distribution has really paid off. The stocks that got hit the hardest are the small, new emerging stocks.

Mr. Monagle gave an analysis of Weiss, Peck and Greer Venture Capital III and IV. Weiss, Peck and Greer Ventures III - the Plan committed \$10 million in capital. The Plan has funded \$9.5 million. Since the Plan invested in this program in approximately August of 1994, Weiss has given back cash of \$19 million. The size of this fund is approximately \$63 million.

Weiss, Peck and Greer Venture Capital IV is out of its fund raising cycle. They have closed the fund. The Plan has an \$8 million commitment to the Fund. The size of this Fund is approximately \$104 million.

Mr. Monagle discussed venture capital in general. He also discussed private equity and LBO's (Leveraged Buy Outs). This side of the market has not been hit according to Mr. Joachimi and he said there is room for a percentage of the Plan's money in this type of asset. He said it is necessary to be very careful. Mr. Joachimi looks at it as an equity that is going to give you equity returns, which are needed in this Fund. Mr. Joachimi said there are times when the domestic equity market is going to outperform this, and there are times when this will outperform equity and this is what you want.

Mr. Kallianis asked if it is the Committee's desire to get into this, how we do it. Mr. Joachimi suggested taking some money out of your normal equity managers so your commitment to domestic equity would come down but your commitment to overall equity would be the same. It is an alternative style of investment.

Mr. Monagle will draft up some recommendations. There are some good funds and he will put it in his draft.

**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 -10.79%, and the value of the total assets of the Plan as of August 31, 1998, amounted to \$1,579,063,929**

**Mr. Ross gave the members a sample copy of the letter regarding directed commission, commission information for the 2nd quarter breakdown by manager for review, and also a listing of all brokers used by various money managers.**

**Mr. Anosike asked Mr. Ross to go through the numbers with the Committee. Total commission to date for the six months ending June were approximately \$1.3 million. That breaks down to 41.29% directed through our soft dollar program with Wellesley , Lynch, Jones and Ryan or directed to Chicago and/or minority brokers. Basically, it is a 60-40 split based on what they do and do not direct to our program. He gave them a breakdown of managers and what minority brokers are being used by the various managers. He pointed out to the Committee that generally minority brokers will not be listed because they have to go through a general clearing brokerage house so that the clearing brokerage house will appear. The only Chicago minority brokers are Melvin Securities and Loop Capital. Mr. Collins asked about Gardner Rich. Mr. Ross said they did not have trades this quarter but did in the first quarter. In the first quarter, Gardner Rich was one of the minority brokers used. Melvin Securities was used by Ariel but the clearing broker was Corresponding Services, whose name would be on the bank statement.**

**Mr. Burke had an update on processing investing managers through Northern Trust. Northern has approved Janus Capital and Dreyfus.**

**Northern has not yet completed its review of ABN AMRO, but they have approved Mentor. They are still considering RREEF approval. RREEF has submitted documentation to Northern.**

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

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

**Mr. Acosta informed the Committee that the special Real Estate Meeting was not scheduled this week because Mr. Berlin is out of town.**

**Mr. Brian Rieger from RREEF gave an update on some of the dispositions they are working on.**

Mr. Rieger discussed the bids he received regarding Meridian. Duke Realty Limited Partnership made a bid of \$40.92 million, Center Point Properties Trust made a bid of \$40 million, Epic/Walton Street Capital made of a bid of \$36.6 million. They had interest from Manufacturers Life for \$20.5 and Cabot Industrial for the buildings only. They had some interest from La Salle Partners for the land only but they did not come back for the second round. It is a very thin market for Meridian at this time. He felt they have two very strong bids from Duke and Center Point. They are both real estate investment trusts as he reminded the Committee. He discussed the various bids and said he would be back next month.

Mr. Rieger said what it really reflects is there is not a deep market for development projects. He recommended these numbers as good numbers for selling. If it is not sold at this time, he said the Committee would have another year hold on Meridian, which RREEF would continue to manage and sell land and the Plan would have a return on that.

Lake/Wacker site - Hines group is supposed to close the end of October. They need some additional time to close. They indicated they have strong interest from tenants. They spent a lot of money on design. They are having trouble getting the equity part finalized. They indicated they are out of money for this year, and they have money for next year. The long and short of it is, this is a very attractive offer of approximately \$12 million. The second and third bidders were Reit's, Prime and First Industrial. Both of those Reit's, he did not believe were currently in the market. The market is flat. He recommended we preserve this deal if we can. There is an opportunity to forfeit them out at \$1.5 million. Mr. Rieger suggested going back to Hines and negotiating a very short term extension, get them to covenant us for the earnest money. He said they can probably still sue us but acknowledge that the money is gone (\$1.5 million) and restructure some type of deal to keep them in the deal. It may take 90 days to get them into next year. They were planning on breaking ground next spring. They need money and tenants. They do not have a signed lease. They would probably sue based on that we were unable to deliver the title or there was something wrong with the property. Mr. Collins asked the Plan Attorney's feelings. He said the market has cooled down a bit. It is the best offer we have had. Mr. Rieger asked for some direction from the Committee. His recommendation was to open it up for a short period of time.

Mr. Williams said we have gone so many years with this property. We were prime to sell for a lot less. He felt a 90 day extension is fine. Ms. Leonis said Hines is also bidding on the post office, she wondered if it had something to do with it. Mr. Rieger did not think so. Mr. Anosike did not feel good going with an extension. The Plan Attorney said the deal was a good deal. Mr. Burke encouraged the Committee to give them the extra time. It is a good price. Mr. Rieger said they are the best candidate for completing the sale and it would be another two years until we found another viable candidate.

made very clear to the Arbitrator. Mr. Healy chose to point out things that the Arbitrator said. Of course, he was very selective in what he chose. I think the most important thing to point out that the Arbitrator still chose W-2 earnings up to the point that he chose W-2 earnings and it went beyond the point where CTA stopped paying in 1994. The Arbitrator said that W-2 earnings are still the basis up until June of 1996. Have we or are being duped as a Committee. My problem is that CTA is asking us to do an audit when they themselves have already done an audit. They brought an auditor to an arbitration meeting last month. If they are asking us an audit here, what is the reason behind it because they have already done one. Mr. Collins said he does not know if it was based on inexperience or expediency or our lack of paying attention to what happened last month. We erred last month with what we did and I feel as a fiduciary of this Plan, my job is to carry out the rules of this Plan. I bring everyone's attention to Rule 14. If we are suggesting that we deviate with what Rule 14 said, then we are not carrying out our fiduciary responsibility. If CTA has a problem with anything, they have a right to pursue it as best they may but what comes before this Committee are driven by the rules of this Committee, and the actions we take should be driven by the rules of this Committee. He frankly felt the Committee erred last month and based on the development that has gone on since last month, he was here today by any means necessary reverse what we did last month. He asked Mr. Burke what he could do to right what I feel is a wrong so I can clear what I feel is an error from my view from my fiduciary standpoint. Mr. Burke said he could make a motion to discharge Ernst and Young.

Mr. Collins made a motion to discharge Ernst and Young from their duties. This was seconded by Ms. Black. There was a roll call of members as follows:

D. Anosike	No	I. Thomas	Yes
P. Beavers	No	W. Black	Yes
L. Sanford	No	R. Baughn	abstained
M. Acosta	No	T. Collins	Yes
J. Kallianis	No	J. Williams	Yes

Mr. Sanford told Mr. Collins he spoke very eloquently but we still have to remember there are not a lot of employees in our Plan who have earnings from two sources. If there are earnings from that second source outside the CTA, it may or may not be pension eligible earnings because 241 can pay their officers and part time officers any amount of money they want. CTA cannot question that but from standpoint of work you pay your officers as well as your part time officers, how much of that is pension eligible, is the only thing that this Body is concerned about. We vote monthly for employees to retire. The only thing we are dealing with is whether or not a person is retiring and whether they are retiring on pension eligible earnings over their life at the CTA.



There was a discussion about other offers for the property. The back-up offers are gone. Ms. Leonis asked why Mr. Rieger thought the back-up offers were gone. He said because they are both real estate investment trusts and their stock has eroded, and they have not expressed any interest in getting back in. Mr. Rieger said the REIT's have less buying capacity as the stock prices go down.

Mr. Rieger suggested telling Hines we would continue the contract subject to offers from third parties. Third parties would have the right to match that offer or we would agree to terminate and sell to third parties. He will report to the Committee next month.

Elk Grove -- Trammell Grow has spent a great deal of time negotiating. They had three different uses for the Elk Grove property. They called back and said they have lost that opportunity. Mr. Rieger's recommendation is that the property be put back on the market but attempt to encourage Trammell Grow to find a third party.

We have signed a lease at Jeffrey Manor. Ameritech had vacated the property. The lease is with City of Chicago. It really stabilizes that asset. There is an opportunity to sell it. The market is not great but the property is stabilized. Mr. Collins felt it was a good time to look at selling it because now is fully leased.

Mr. Acosta asked Mr. Rieger to bring back a proposal regarding Jeffrey Manor, and we can put it out to market. Ms. Rayford brought up the subject of the Plan investing in the minority community. This has been the only piece of property in the minority area and it has held some stability and this is something to keep in mind for future investments.

On a motion by Ms. Leonis, seconded by Mr. Williams, 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 announced that the check for CTA contributions for the Plan for full time officers that retired in 1997 had been received.

There are 31 retirements for October. The reports show 29 but two more applications were received from Tom Czech -- Robert Baughn and Howard Monroe. Mr. Collins asked if there would be a problem processing these two applications because of the time. Mr. Forte said there would be no problem.

Out of 31 retirees, 18 were under the incentive plan.

Mr. Collins brought up the fact that he had asked about Anthony Jones at August's meeting. Mr. Jones had expected a Sept. 1 date and was verbally told this by Mr. Czech. Mr. Jones did not work during the month of September and as such made a request for that September 1 date. Mr. Collins wanted that issue to come before the Committee for its consideration. Mr. Forte said the Authority gives out dates under the incentive and so far the Authority gave him October 1. Mr. Collins felt it was inconsistent with the way it was handled with Messrs. Thomas, Leonard and himself. Mr. Collins wanted to know what his recourse his. Mr. Brown asked why he did not work in September. Mr. Collins said if you read last month's minutes you will see that Mr. Forte stated that he cannot work during the month of September in order to be eligible for September, and Mr. Collins replied he would monitor to make sure what Mr. Jones actually did. Mr. Sanford asked if he had received a September 1 date. Mr. Collins said only a verbal commitment from Mr. Czech that September 1 would be the date he would be separated from the Authority. Mr. Sanford said he would have to check with Mr. Czech. Mr. Thomas said the Committee should approve the retirement and deal with the retroactivity later.

Mr. Forte received a letter from Ms. Jane McGuan, who is in 605 and she will not have 25 years until August, 1999. Her question was if she took a disability at this time, what time period would she have to be back on the job in order to come under the incentive plan next year, if she is able to return to work. Mr. Collins said we cannot paint a picture for her. He felt the response to her should be to let her know what the practice is. Mr. Sanford said if her benefits have run out and she is eligible to go on a disability pension, that is her choice. If we tell her what to do, we are liable if it does not work out the way she wants it to work out. She has to come back to work from disability pension to be able to go on regular pension. Mr. Williams said we should respond by letting her know what the rules and regulations are. Mr. Anosike wanted to know who would respond to her. Mr. Collins said the Pension Office. The Committee felt Mr. Burke's office should draft up the letter.

Mr. Sanford had a concern for the Committee. Since CTA has assigned retirement dates to Robert Baughn, Howard Monroe and also to Anthony Jones he wanted to know how the calculation of benefits would be figured out. He had thought the arbitration award would spell that out but he is not sure it is very clear. We have to be sure the calculations are correct. He was wondering this morning based on the arbitration award, that the Pension Office has the proper documentation and/or the right understanding. Mr. Williams asked Mr. Forte how they calculated the 3 individuals who retired from Local 308. Mr. Forte and the Plan Attorney went over the figures and then there was a meeting with Mr. Czech, and we again went over the figures. Mr. Forte said the same would be done with these individuals. Mr. Collins said he cannot understand why there is a concern when there is a procedure in place.

The Plan Attorney discussed the letter received from CTA's General Counsel, Duncan Harris regarding this same issue. Mr. Harris raised questions about the accuracy of the data which is to be submitted to the Committee for determination of benefits. He cited inconsistencies in reporting the wages of the part time executive board members. He is suggesting there are inconsistencies between the records indicating hours worked by those board members compared with their record with the Authority. Mr. Burke told Mr. Harris that the provisions of the Plan provide that the guideline for the Committee is based upon W-2 report earnings. Mr. Harris has taken the position that the W-2 reports in regard to these part time union members is inaccurate. Some individuals reported working at CTA and at the same time they were working for the union. He is raising a question on behalf of the Authority that there needs to be an examination of those records of the union regarding this. The Plan Attorney told Mr. Harris he would bring this up to the Committee today. It is really a Committee determination about the accuracy of the records. They are the fiduciaries.

Mr. Williams said the practice of this Committee calls for the calculations to be based on W-2. Unless we change that or come up with some other solution, I think the Committee is well within our rights to move forward and deal with the W-2's. I think we should be moving forward with calculations based on W-2's. We are not here to examine anyone but to make sure that the W-2 says what it says.

Mr. Anosike asked for Mr. Burke's position. The Plan Attorney said it seems the procedure that was set forth for the 308 retirees should be followed. The data should be gathered; Mr. Forte should meet with Mr. Czech and work this through. Mr. Burke senses from Mr. Harris' letter that Mr. Czech would follow the advice of the General Counsel for CTA and will raise questions about the veracity of the W-2 forms that are coming in from the union. The Plan Attorney felt that Mr. Czech will ask for supporting documentation for the W-2's. The Plan Attorney hoped it could be resolved because these employees are anxious to retire.

Mr. Sanford asked what role the arbitration award played in the calculation. Mr. Burke said the arbitration award does not challenge the rule of the Committee that W-2 is relied on. The arbitration award says that whoever was working for the union in a part time position should be given credit for that time. What Mr. Harris is saying is that the W-2 forms from Local 241 are wrong. As committee members you should be comfortable with the W-2 forms. The Plan Attorney did not feel the arbitration award was particularly helpful in solving Mr. Harris' problem. The Plan Attorney will get together with Mr. Czech to see if there can be a resolution of this issue. Mr. Thomas said use the same process as was used with 308 people and if there are any discrepancies, the Committee will have to decide this. The goal according to Mr. Anosike is to get everyone out as quickly as possible. He felt that any meeting with Mr. Czech will not solve the discrepancies. He suggested using our auditor. They could go through calculations to see if everything is correct

according to Mr. Sanford. The Plan Attorney said he would give Ernst & Young the letter from Mr. Harris and any backup material Mr. Harris may have and ask that they come back to the Committee with the exact calculation. Mr. Williams would like to see the entire bill from the beginning until they finish.

Mr. Kallianis asked if we are voting on Baughn and Monroe. If they are not through with the audit by October 20 and if they do not agree by October 20, the Plan Attorney said there probably is some number with a retroactive correction when the auditors finish.

On a motion by Mr. Sanford, seconded by Mr. Williams, the committee unanimously approved the motion that the Retirement Allowance Committee take a look at calculations where benefits are derived from two different sources by the officers and bring the results back to the Committee. The auditors will identify a separate fee for this particular audit and the final disposition would rest on the Committee, the Committee approved the motion.

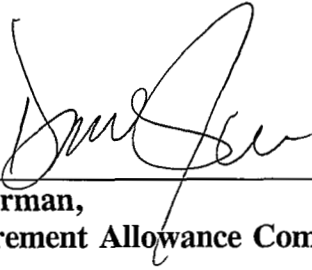
The Plan Attorney spoke about last month's meeting and the discussion about Helen Banks. She was on disability and had the okay to return to work in May or June of 1997 but there were no Ticket Agent positions available. She was finally returned to work on February 4, 1998, and she has now retired. She is now seeking retirement benefits under the early retirement incentive program. She is arguing that she wished to return to work and no position was not available. Had she been working she would have participated in the program. Pursuant to the Committee's direction, the Plan Attorney had discussion between L. Sanford, J. Forte and T. Czech on September 2. The consensus of that discussion was that she wanted to return to work but was not able to return to work because no position was made available to her, and she should participate in the early retirement incentive program.

On a motion by Mr. Thomas, seconded by Ms. Leonis, the Committee approved allowing Ms. Banks to participate in the early retirement incentive program.

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

7. Old Business - None
8. New Business - None
9. Executive Session - The Committee moved to Executive Session at 11:15 A. M.

10. The Committee reconvened; there being no further business on a motion from Ms. Leonis, seconded by Mr. Brown, the Committee unanimously agreed to adjourn at 11:29 A.M.



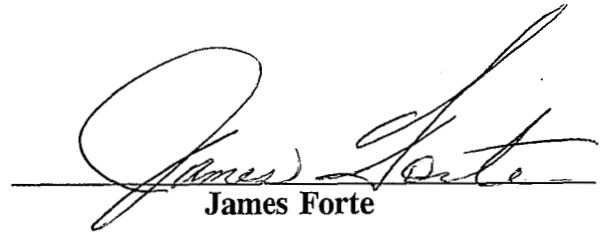
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**Chairman,  
Retirement Allowance Committee**

**Dated:** \_\_\_\_\_

10/27/98

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**James Forte**