

RETIREMENT PLAN FOR CTA EMPLOYEES
10 SOUTH RIVERSIDE PLAZA
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NOTICE

RETIREMENT ALLOWANCE COMMITTEE MEMBERS AND ALTERNATES

THIS IS TO ANNOUNCE THAT THE MEETING OF THE SUBCOMMITTEE ON GENERAL ADMINISTRATION WILL BE HELD TUESDAY, FEB. 25, 1997, AT 8:30 A.M.

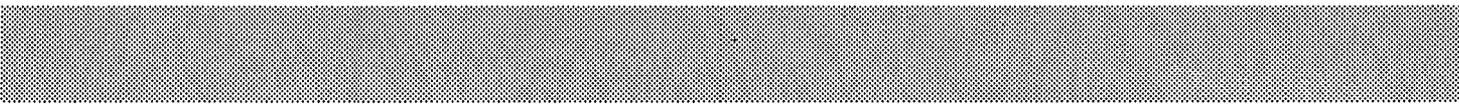
THIS WILL BE FOLLOWED BY THE INVESTMENT SUBCOMMITTEE AT 9:30 A.M., THE REAL ESTATE SUBCOMMITTEE AT 10:30 A.M., AND THE RETIREMENT ALLOWANCE COMMITTEE MEETING AT 11:30 A.M.

THE MEETINGS WILL BE HELD AT THE NORTHERN TRUST COMPANY, 50 S. LA SALLE STREET, IN THE DIRECTORS' DINING ROOM ON THE 6TH FLOOR.

AGENDA

FOR THE 577th RETIREMENT MEETING OF FEBRUARY 25, 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 576th Meeting held January 28, 1996.
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.
 - (i) Vincent A. Barba - #1744 - request for retro-activity to 02-01-97.
 - (ii) Richard J. Corbett - #21800 - (*disability*) - request for retro-activity to 01-01-97.
 - (iii) John Fite III - #23698 - (*disability*) - request for retro-activity to 02-01-97.
 - (iv) Charles Lyons - #13066 - (*disability*) - request for retro-activity to 02-01-97.
 - (v) Sang Shin - #15161 - (*disability*) - request for retro-activity to 02-01-97.
 - (vi) Robert J. Smith - #7334 - (*disability*) - request for retro-activity to 01-01-97.
 - (vii) Franklin A. Smith - #5543 - (*disability*) - request for retro-activity to 01-01-97.
 - (viii) George Hollendoner - #34677 - (*disability*) - request for retro-activity to 02-01-97.
 - (ix) Gus J. Stevens - #20127 - (*disability*) - request for retro-activity to 02-01-97.

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- d) Presentation of Death Benefits for approval.
 - e) Presentation of Refunds of Contributions for approval.
 - f) Presentation of Bills and Remittances for approval.
 - g) Robert Hudson - #13510 - returned to duty - February 11, 1997

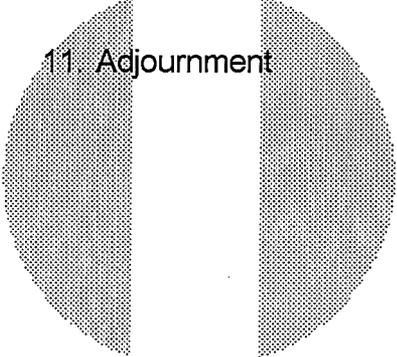
7. Old Business

8. New Business

9. Financial Report

10. Executive Session

11. Adjournment



RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY

The 577th Meeting of the Retirement Allowance Committee was held on Tuesday, February 25, 1997, at The Northern Trust Company, 50 South La Salle, 6th Floor Director's Dining Room. The following were in attendance:

Mr. E. Hill, Chairman
Mr. T. Stevens
Mr. W. Buetow
Mr. D. Anosike
Ms. S. Leonis

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

Mr. Baughn sat in Mr. Williams' stead. Alternates also present were L. Sanford 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. T. Paravola of Burke, Warren and MacKay was present. Messrs. C. Wesley, C. Spears, J. Henderson, B. C. Gilmore and J. Guerrero were also in attendance. Also in attendance was Ms. L. Murray.

1. The Chairman called the meeting to order at 11:40 A.M.
2. A roll call was taken which indicated that a quorum of Committee Members was present.
3. Revisions were made to the Minutes of the 576th Meeting. On page 2, 1st line, 2nd paragraph, change "Mr. Hill" to *Mr. Buetow*. On page 4, add the following:

10. A committee of Messrs. Buetow, Collins, Stevens and Williams was formed to review performance and fees to insure proper benefit for services rendered.

On a motion by Mr. Thomas, seconded by Mr. Brown, the Committee unanimously approved the Minutes with the above changes.

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

Mr. Joachimi spoke regarding the previous manager search. It was to replace 20th Century and GAMCO. The Committee selected Piper on the growth side.

Mr. Perk spoke about a letter from Mr. Gabelli of GAMCO who said they would manage the portfolio free for one year and CTA can specify the index. Most of the Committee felt if they could not manage the portfolio before they were put on notice, how would they do it now.

Mr. Joachimi spoke about his recommendations to replace some of our existing equity managers. He recommended Janus, MacKay-Shields and Montag & Caldwell. All three of these money managers meet the criteria of beating the index for a long period of time. If the Committee does not hire someone from this group, Mr. Joachimi suggested \$30 million be taken out of the Index Fund and allocated among the managers that are presently in place. Mr. Joachimi recommended that we keep the \$30 million in the growth area.

There was a discussion about Kenwood and NCM Capital and how they are doing.

Mr. Joachimi explained how these three replacements were chosen. First, Mr. Joachimi looked at the investment style they have and then at the 3 and 5 year record and if they have a longer record that is looked at. Ms. Leonis suggested the Committee look at a manager that had the highest performance for the Teacher's Retirement Fund. Their name is Ark not to be confused with our money manager with the same name. Mr. Joachimi will check on this.

Mr. Joachimi said there is \$25 million of the \$60 million committed so that means there is \$35 million more for commitment. It will either be committed to a new manager that has not been hired or it will be committed to a manager already in place. Mr. Perk questioned who will sell off those securities. Mr. Joachimi said that in the past they have spoken to Merrill Lynch, Bear Stearn, Paine Webber, Wilshire, McDonald for small stocks and for international stocks. James Caple and we will get very low cents per share and it will be sold as a block. If another manager is not hired, a decision must be made what to do with the \$30 million. If it is kept in the growth section, there are 3 managers to spread this money to - Weiss, Peck and Greer; NCM and Kenwood. Eventually, if Chicago Corp's services are discontinued, a decision has to be made where to distribute the \$46 million.

Mr. Buetow felt that there was a reluctance at the present time to hire another manager. Mr. Hill suggested that there be a special meeting of the Investment Subcommittee before March's Retirement Allowance Committee meeting. All agreed.

The first presentation was from Bears Stearns, a fixed manager, who has been on the Plan's watch list.

Representing Bears Stearns was Doni L. Fordyce, Peter E. Mahoney,

Gwendolyn L. Stanback and Phillip B. Rooney, Jr.

Ms. Fordyce spoke on the problems they had and how Bears Stearns is recognized as one of the leaders in fixed income as relating to capabilities. They asked to be given another change to do a better job going forward because the Plan's business is important to them.

Mr. Rooney spoke about what they are doing differently now in the portfolio is diversifying the type of risks. They have outperformed in January by 30 basis points.

Ms. Fordyce told the Committee they were trying to make changes a year ago before they were called in by the Committee and told they were on the watch list. Mr. Hill commended them and said this was in their favor. She said they would not be at the meeting if they did not feel they could create better value in the future.

It was decided that the future of Bears Stearns will be discussed at the special meeting called by Mr. Hill.

The next presentation was made by Harris Investment Management, Inc. Representing Harris were Fred Duda, Jim Depies and Laleen Doerrerr.

Ms. Doerrerr spoke about how Harris is a Chicago based analytical driven investment manager. They have a dedication to fundamental analysis.

Mr. Depies spoke about the equity portion of Harris' asset management. Harris has approximately close to a billion dollars under management. Mr. Depies emphasized that 20% of the staff is devoted to analytics and fundamental research. The key to Harris success is in developing models that have predictive capability. By predicative capability, they are looking to add 1% or 100 basis relative to the S & P 500 and they want to do it over a market cycle of 5 years - - 1% a year over the S & P 500. Last year the fund was up 29.2%.

Mr. Duda said the fixed income side is very similar to the equity side in that people supporting portfolio managers are very heavily oriented towards research. International capital flows are much more important in the investment markets today than they were 5 years ago.

Mr. Hill questioned Mr. Duda about investment grades. About 5% of the entire bond market is invested in BBB grade securities. They think there is value there and good yield but it is up to the client. Harris avoid speculative, high yield securities, and they do not have any non-dollar currency exposure.

On a motion by Mr. Brown, seconded by Ms. Leonis, the Committee unanimously

approved the Investment Subcommittee Report.

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

All the members of the Real Estate Subcommittee were present.

Mr. Robert Apodaca of Kennedy Associates, Inc. recommended that the Committee authorize selling one million square feet of property that they hold in the Dallas/Fort Worth. He reviewed for the new Committee Members what was done 4 years ago when the Plan invested along with three other plan sponsors to buy 15 buildings in Dallas/Fort Worth. The price that was paid for it was over \$38 million and the Plan's share of it was 15%. The other partners are the Alaska Permanent Fund who owns 40%, San Diego County owns 30% and Stanford owns 15%. About 2 years ago the partners authorized Kennedy to build on the property and Kennedy have leased out 2 buildings. The total portfolio is 17 buildings (1.8 million square feet) valued at \$43,655,000. They plan on doing an appraisal on these properties during the second quarter of 1997. The portfolio has performed very well over the 4 years. In 1996 it was 99.9% leased. Mr. Thomas asked how many tenants does that non-leased building involve. Mr. Apodaca said approximately 30. These are tenants that use the building for bulk storage. These buildings have 10% or less for office space.

The portfolio generated a net operating income of a little over 11%. In 1996, Kennedy Associates wired backed to the Plan \$633,000 and inception to date they have distributed back to the Plan a little over \$2 million so 30% of the original investment has been recaptured. Originally it cost \$23.65 a square foot, and Kennedy is now proposing to sell a million square feet at \$29.28 a square foot.

Kennedy is proposing that the Plan authorize them to sell 10 buildings for \$29.28 a square foot which would give the Plan a 15.6% internal rate of return. To arrive at a million square feet, some of the good properties had to be put up for sale with the bad properties.

On a motion by Mr. Brown, seconded by Mr. Thomas, the Committee unanimously approved selling one million square feet of property in Dallas.

Kevin Lynch of Townsend reported that the Wachovia Fund is in liquidation. There are 14 properties remaining - dispositions will continue through 1997.

RREEF USA III commingled fund is in liquidation.

RREEF Meridian Business Campus, which is a co-investment with San Diego, will be selling land during 1997 and should return approximately \$1 or \$1.5 million.

There are no immediate sales on the Metric Apartment Fund. Metric Realty was wholly owned subsidiary of Metropolitan Insurance, and it is now been consolidated with Metropolitan's real estate group called Met Realty and is now called State Street Realty (SSR). Mr. Hill wants to have someone come from Metric at next month's meeting. V. Bennett, according, to Mr. Lynch has moved to Texas and is thinking of retiring.

The demolition of 191 North Wacker is complete. RREEF solicited bids from 6 parking lot operators and selected Allright Parking, who have agreed to pay the cost of the construction of the surface parking lot, which will cover the operating cost of that parcel. Mr. Lynch suggested having it reappraised but it is up to the Committee if they want to continue to carry it at the current value of \$9.5 million.

711 Jorie Blvd. - McDonald's decided to forego their purchase option. The property remains 100% leased to McDonald's through December 31, 2005.

20 North Michigan - the mortgage was paid in October.

645 Remington - a marketing pack for the property will be distributed. CB Commercial is marketing the property for a asking price of \$2.5 million.

Lake County Industrial - a contract has been signed for \$9.7 million.

Commercial Net Lease transaction - those documents are being reviewed at the Plan Attorney's Office and funding of this investment should occur in early April, 1997.

Mr. Lynch spoke about the meeting of January 27, 1997. CTA's portfolio was discussed. There will be approximately \$100 million to invest with all the sales and the Committee has to make a decision on where they want to invest the money.

The current real estate portfolio, after commitments, will be worth approximately \$125 million. At the meeting it was looked at what would be sold in 1997 and how much money will be coming back. There will be \$6.5 coming in from Lake County Industrial. There will be approximately \$2.5 million from 645 Remington. The Plan has already received \$1.2 million from RREEF USA III. From A.C.S.S. Dallas, the Plan will be approximately \$4.3 million and \$1.4 million from Meridian. At the meeting of January 27, 1997 the Committee and Mr. Lynch discussed separate accounts, commingled funds, value funds.

Mr. Lynch explained to the Committee where money should be invested. He suggested investing in REIT'S. The new portfolio would be made up of existing assets about \$100 million in core; \$20 million in non-core. He said they would add Capital Associates, which is new core apartment investment, CNL, which is a new

core retail investment, \$25 million to a core value fund, and a commingled fund to capture value in this market. That will leave another \$35 million for other investments the Plan would like to make at some future time.

All Mr. Lynch wants to do is establish a recommended strategy for 1997.

Mr. Lynch said he would take the old plan and totally revamp it to reflect what the Committee at that January meeting let him know where the portfolio direction should be. Mr. Hill explained to the Committee that Mr. Lynch is not asking for money. He is asking for permission to redo the current plan for categories we do not have like REIT'S and set the percentages in those categories. Mr. Lynch said he would work with the Real Estate Subcommittee and the Retirement Allowance Committee to find a number of REIT'S and bring them before the Committee to give a presentation.

On a motion by Mr. Stevens, seconded by Mr. Brown, the Committee unanimously approved to accept the recommendation of Mr. Apodaca of Kennedy as concurred by Mr. Lynch of the Townsend Group to sell a portion of the Dallas/Fort Worth portfolio as described.

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

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

The following members were present: T. Collins, T. Stevens, L. Brown, W. Buetow, J. Williams and W. Black.

Mr. Collins requested approval of items a through g.

Mr. Forte reported that Rock Investigations was given the names of 8 disability pensioners to check why they did not send in their surveys. As of now there are 3 who have not sent in their forms. Ms. Sharon Brigham was not home on two occasions. Rock Investigations will make another attempt. Mr. Marvin Vaughn is in a nursing home. The doctor's statement was to be sent in by the nursing home. Mr. Billy Sanders said the CTA is insubordinate to him, and he will not send in the forms. Mr. Williams has spoken to him. As of now the Pension Office is holding checks for three people. Raymond Hendricks (also known as Raymond Henderson),

a disability pensioner who was in jail, is now out and was told he has to go to his doctor and the Medical Department.

Mr. Perk asked what happens if an employee retired January 1 and wants to be included in the incentive program. Mr. Hill said the employee has to come in and revoke the pension. After they have revoked, they have to file papers to participate in the incentive program. Attorney T. Paravola agreed they have to come in and revoke if they want 2.4% and when they get their papers, then apply for the incentive program.

The raise for pensioners is retroactive to January 1, 1997. According to Mr. Forte, they will get the raise on the March checks.

Northern's 1099R's were incomplete. The form did not include the non-taxable amount. The taxable portion was correct but the gross distribution was not listed. The Pension Office requested new forms. There was a similar problems with the supplemental pension. New forms will be sent out for the supplemental as well.

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

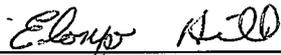
7. Old Business - Mr. Thomas spoke about how three months ago a Committee was formed to look into soft dollars. Ms. Leonis said at the moment they have nothing to report. Mr. Perk noted there is correspondence in his files dating back to the 1970's on soft dollars which this Committee can use.
8. New Business - None.
9. Financial Report - The Executive Director then turned the Committee's attention to Report of Deposits, Disbursements and Investment in the Trustee Summary and noted that for the month of January, the performance for the total fund was 3.07%, and the value of the total assets of the Plan as of January 31, 1997, amounted to \$1,533,818,598.
10. Executive Session - None

11. There being no further business, the Committee unanimously agreed to adjourn at 11:55 A.M.



Executive Director,
Retirement Allowance Committee

Dated: March 25, 1997



Chairman,
Retirement Allowance Committee

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