

RETIREMENT PLAN FOR CTA EMPLOYEES

10 SOUTH RIVERSIDE PLAZA

SUITE 1625

CHICAGO, ILLINOIS 60606

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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, MARCH 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 578<sup>th</sup> RETIREMENT MEETING OF MARCH 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 577<sup>th</sup> Meeting held February 25, 1997.
4. Investment Subcommittee report.
5. Real Estate Subcommittee report.
6. Subcommittee on General Administration
  - a) Announcement of deaths reported since the last meeting.
  - b) Presentation of Pre-Retirement Surviving Spouse Allowances for approval.
  - c) Presentation of new retirement applications for approval.
    - (i) Valerie Sulton - #23111 - (disability) - request for retro-activity to 03-01-97.
    - (ii) Oscar Carrasquillo - #3663 - (disability) - request for retro-activity to 01-01-97.
    - (iii) Tommie Busley - #17913 - (disability) - request for retro-activity to 02-01-97.
    - (iv) Karen Bankston-Wiggins - #19618 - (disability) - request for retro-activity to 02-01-97.
  - d) Presentation of Death Benefits for approval.
  - e) Presentation of Refunds of Contributions for approval.
  - f) Presentation of Bills and Remittances for approval.
  - g) James H. Lee - #19722 - Resigned and vested under Section 11 of the Plan.
  - h) Warren Green - #08448 - returned to duty - February 26, 1997
7. Old Business
8. New Business
9. Financial Report
10. Executive Session
11. Adjournment

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## RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY

The 578th Meeting of the Retirement Allowance Committee was held on Tuesday, March 25, 1997, at The Northern Trust Company, 50 South La Salle Street, 6th Floor Director's Dining Room. The following were in attendance:

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

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

Mr. D. Perk, Executive Director, was in attendance. Mr. Lang sat in Mr. Buetow's stead. Alternates also present were L. Sanford, P. Beavers, L. Morris, R. Baughn, M. Caffery, B. Rayford, M. Green and J. Kallianis. J. Forte, W. Ross and A. Dungan of the Pension Office Staff were in attendance. Ms. P. Newton of Northern Trust Company was present. Mr. R. Burke of Burke, Warren and MacKay was present. Messrs. C. Wesley, C. Spears, B. C. Gilmore and J. Guerrero were also in attendance.

1. The Chairman called the meeting to order at 10:45 A.M.
2. A roll call was taken which indicated that a quorum of Committee Members was present.
3. On a motion by Mr. L. Brown, seconded by Mr. Lang, the Committee unanimously approved the Minutes of the 577th Meeting.
4. Mr. T. Collins, Vice Chairman of the Investment Subcommittee, reported on the meeting held this date.

Two presentations were made.

The first presentation was made by Mentor/Everen Securities (formerly Kemper Securities).

Mr. Joachimi explained that Everen Securities is a Chicago firm and was the brokerage side of Kemper. and they own 20% of the a money manager firm called Mentor which is in Richmond, Virginia. They have the ability to invest up to 50%. Mr. Joachimi said they were not in the search because he only knew them as Mentor, and there were other managers from Chicago who had numbers that were equally as good. Mr. Joachimi was confident that their numbers were good and they qualify as a good manager.

Mr. Steve Ball gave a short overview about Mentor Investment Group which is a jointly owned investment management firm. It is jointly owned by Everen Securities in Chicago and Wheat, First, Butcher & Singer. They manage over \$10.5 billion in assets.

Mr. Tom Reedy gave a background on the Everen/Mentor relationship. Everen Securities, Inc. is Chicago based. Everen Securities is the largest brokerage firm in Chicago, formerly known as Kemper Securities. When Kemper Corp. was sold to Zurich International, the employees and management of Everen Securities bought the firm from Kemper Corp. When Everen bought Kemper, they did not have their own asset management arm so there was a need to create an asset management arm so they embarked upon this venture of a joint ownership of Mentor with Wheat, First, Butcher & Singer out of Virginia. Mentor is wholly owned by both Everen and Wheat et al. Everen owns 20% of Mentor now. Everen has a 2 year period in which to buy up to a 50% of Mentor.

Mr. Price is the CIO of the small/mid-cap side of Mentor. There are 5 employees in Richmond, Va and all they do is manage money. They have between \$500 to \$600 million. Their philosophy is to buy small, rapidly growing stocks that are not priced right in the market.

They have over 125 companies in the portfolio. They visit every company in their portfolio at least once a year in person. The number one factor for them is earnings growth per share. If there is a negative earnings surprise or standard deviation below expectations, the stock has to be sold as soon as possible. The second reason they sell a stock is if there is a fundamental change in the company. These are small companies and they felt if this company is going into a whole new area the stock is sold because Mentor bought them for a specific reason. Technical sales are also a factor in the portfolio stock breakdown.

There were questions from the Committee.

Mr. Joachimi then gave a summary about Everen/Mentor. They were not in the original search because Everen is a local firm who has chosen Mentor to be their investment arm. The numbers are very good and they meet all of the criteria which is basically beating the index after cost by 100 basis points or 1% annual rate compounded. Mr. Joachimi said he was comfortable with that. He asked the Committee if they wanted to consider them.

On a motion by Mr. Williams, seconded by Mr. Hill, the Committee unanimously approved allocating \$25 million to the Mentor Investment Group.

The second presentation was made by Sam Austin of Bankers Trust Company of New York City on index funds. Mr. Austin spoke about Bankers' capabilities in equity index products and bond index products. Many of their clients have experienced what CTA is experiencing with money managers that have not performed up to standard and have moved some money to an index fund on a temporary basis.

Bankers Trust is the fourth largest asset manager in the country. They are about the 8th or 9th largest bank in the country.

Mr. Austin spoke about bond and equity indexing. They have two types of clients; one type likes indexing as a core strategy for their stock portfolio. They may have 35 to 50% of their portfolio in index funds. Those tend to be the largest plans in the country that do that. Another type of client sees it as a swing fund. They see Bankers as a problem solver in liquidation issues. If you have an active manager that you want to change on your roster, some of their clients have first gotten to know Bankers Trust by parking money on a temporary basis allowing Bankers to utilize the trading strength they have in the market by being such a large player to liquidate an active portfolio in a cost efficient manner and give back securities or cash so that the money can be invested with Bankers or somewhere else.

Several questions were asked by the Committee. Banker's would invest the Plan's securities or cash in their existing commingled fund unless they were told differently. You buy units of the commingled fund either by contributing shares or by giving them cash. It provides two advantages because a commingled fund in general has lower transaction costs than a separate account because several hundred other participants are able to cross shares with each other. Secondly, the Plan would also get the benefit of Bankers being able to time our transition.

Mr. Austin then spoke about bond index management. Bond index management is a lot more difficult than equity index management and that is mainly because whereas in the S&P 500, there are 500 stock. In the Lehman aggregate which is the accepted bond benchmark, there are about 5500 bonds and it is impossible to buy all those bonds. A good portion of them are held by large pension funds that do not trade them and that leads to the fact that you have to use a sampling approach to build a bond index portfolio and that is the process they use in all of their index funds. They manage about \$2.8 billion or so in a Lehman Aggregate Index Fund. For a \$50 million account in their bond index Bankers charge about 12 basis points or so; for \$100 million account it is about 8 or 9 basis points. Mr. Austin said it is a bargain for getting consistent performance at 30 or 35 above the benchmark.

Mr. Joachimi spoke about his conversation with the President of Delaware Asset Management who informed him that 4 of their portfolio managers and some staff decided to leave to form their own firm. They have been one of the Plan's best

performers for 19 years. He said he thought there was nothing to be concerned about but he suggested having their spokesman come in and speak to the Committee and he will keep them on a watch list and report to the Committee every quarter.

Mr. Joachimi said we have not finished our equity assignments and he would like to get at that at the next meeting. Mr. Joachimi said also we have to get into fixed income.

Mr. Joachim said the Plan Attorney has been talking about the investment guidelines, and the Plan should change the guidelines especially in the fixed income area.

The Plan Attorney said a recommendation should come from Mr. Joachimi, then brought before the Committee and then vote adopt it. Mr. Joachimi will send a copy of a draft to Mr. Hill before the next meeting.

Mr. Joachimi said as the bond market has gone forward, people will swing from long to intermediate so they will be more of an overall bond manager. He suggested if the Committee finds a good fixed manager they should not tie him to be either intermediate or long term.

Mr. Joachimi said the Committee should never hesitate to call and ask about a certain manager and almost always it will be on his data base.

Mr. Joachimi said Ark will be coming before the Committee at the April meeting.

Mr. Burke reporting to the Committee on how things stand on the processing of some of the recommendations the Committee has made to Northern Trust on investment managers. Northern Trust is doing due diligence, and they are working on investment agreements. Things are progressing with Capital Associates investment management agreement. The documentation is out to RXR awaiting their comments. Things are going well with Piper Capital. Mr. Hill said he wants Ms. Beavers to receive information she requests relating to affirmative action.

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

5. Mr. T. Stevens, Chairman of the Real Estate Subcommittee, reported there would be no meeting this month, but Mr. Stevens said there will be a presentation by RREEF next month. Also, Mr. Lynch is working on identifying a number of REIT'S so he can make a presentation very soon.

The Plan Attorney did give a summary of different real estate properties. Things are

moving ahead at 191 N. Wacker property for leasing by Allright Parking. The commencement date for a date of operation will not be until the city gives an operating permit.

Mr. Perk brought up the fact that a fee of \$37,000 was paid Daley and George Law Firm to reduce the taxes on 191 N. Wacker last year. He wanted to know why we received another bill for \$37,000 this year. Mr. Perk wanted the Plan Attorney to explain if we have a contract and will we have to pay \$37,000 every year we own that property. The Plan Attorney said each year real estate is looked at by the Assessor's Office especially property in that type of location. Daley and George will continue because each year there will be a necessity to address this with the Assessor's Office. Even though there is nothing on the property at the moment, that is in the Assessor's eyes a valuable piece of property. It is important to keep the taxes down so each year they must go back each year to the Assessor's Office and go through that process. The fee is based on how much the tax is reduced. The Plan Attorney said with property of this magnitude you want to have someone tracking when the books open and start a dialogue with the Assessor's Office. Mr. Hill asked if there is not someone to work on this will we be leaving ourselves open to higher taxes. The Plan Attorney said if we do not do this each year we may be paying higher taxes and their fee is much cheaper in the long run.

Mr. Williams asked about the two plaques that are in CTA Vaults that were taken from the 191 N. Wacker Building. He questioned what was being done with them. Mr. Stevens said they are trying to work with the City Intergovernmental Affairs to see if they would be interested in them. Mr. Stevens said they are waiting for them to set up a meeting.

The sale of the Lake County Industrial Property is moving forward. The transaction should be completed shortly.

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, J. Williams and W. Black.

Mr. Collins requested approval of items a through h

Mr. Hill stated that he felt employees who passed away after 1/1/97 should be entitled to participate in the incentive program, he believed the benefits for the spouses should be calculated at the 2.40%. It is his recommendation. Mr. Stevens brought up the fact that Mr. Paravola had said that it would be calculated at 1.85% until March 1 and then it would be 2.40%. A motion was made by Mr. Hill, seconded by Mr. Thomas that anyone who was eligible active or inactive that was

on the property 1/1/97 and died that the spousal benefit would be calculated at the incentive rate effective with the date of the first group of incentive people.

There are 152 under the incentive plan for April 1, 1997. Mr. Thomas felt that priority should be given to individuals in 605 or 629 because their benefits may run out in a short period of time. There was a discussion regarding these individuals in 605 or 629. Mr. Stevens told Mr. Thomas and Mr. Leonard to talk to Mr. Czech or Mr. Pollack regarding this.

Mr. Thomas asked Mr. Stevens how people in the EAP Program will be handled. Mr. Stevens will check into this matter.

Mr. Forte spoke about a letter sent to Mr. Hill from Mr. Frederic Kerr about rescinding his pension and returning to work as a Blacksmith. In the letter Mr. Kerr stated that his first pension check and his vacation check had not been cashed. According to Mr. Leonard he had up until the first of the month when you receive the check to revoke the pension. This has been established practice in the past and Mr. Kerr's request was denied.

Mr. Forte reported on additional information regarding Raymond Hendricks, disability retiree, who was out of jail and went to the Medical Department to be examined. Dr. Realiza said he is an alcoholic. Mr. Hendricks calls the office everyday looking for his retirement checks. Dr. Realiza said he should return to Medical in August, 1997. Mr. Collins said he must have gone on disability for some physical problem. Mr. Forte said he is a diabetic. Mr. Collins said should he be judged for his original problem diabetes or should he be judged for developing a alcoholic problem. Mr. Collins suggested turning this over to Mr. Burke for an opinion.

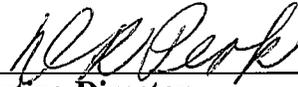
Mr. Forte brought up the fact that as reported at February's meeting, there are still 3 individuals who are on disability who have not sent in their doctor's questionnaire and the investigators went out to find them. The Pension Office is still holding their checks. Mr. Forte suggested doing something about these checks. Mr. Collins said the checks represent lost investment. Ms. Rayford explained how one of these three individuals is Billy Sanders, a very disturbed individual, who will not go to a doctor but it is obvious he should be on disability. Mr. Marvin Vaughn is in a nursing home and the nursing home has the forms but have not sent them to us. Another person on disability is Sharon Brigham and the inspector cannot locate her. The inspector from Rock Investigations keeps going to the house and the landlord says Ms. Brigham is at work.

Mr. Williams suggested releasing the checks for Mr. Sanders and Mr. Vaughn. On a motion made by Mr. Thomas, seconded by Mr. Brown, the Committee unanimously approved the motion to release Messrs. Sanders and Vaughn's checks.

On a motion by Mr. Stevens, seconded by Mr. Williams, the Committee unanimously approved the motion to take Ms. Brigham out of payment.

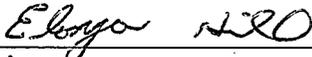
On a motion by Mr. Thomas, seconded by Mr. Stevens, the Committee unanimously approved the General Administration Subcommittee Report.

7. Old Business - None
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 February, the performance for the total fund was .51% and the value of the total assets of the Plan as of February 28, 1997, amount to \$1,536,137,028.
10. There being no further business, the Committee unanimously agreed to adjourn at 11:15 A.M. to an Executive Session.



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Executive Director,  
Retirement Allowance Committee

Dated: May 27, 1997



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Chairman,  
Retirement Allowance Committee

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