

# A G E N D A

## For the 598<sup>th</sup> Retirement Allowance Committee Meeting of November 24, 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 597<sup>th</sup> Meeting held October 27, 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) Miles Eddy - #29063 - request foretro-activity to 03-01-98.
    - (ii) Tamara B. Thomas - #4790 - (disability) - request foretro-activity to 11-01-98.
    - (iii) Bruce S. Norgard - #18800 - (disability) - request foretro-activity to 11-01-98.
  - d) Presentation of Death Benefits for approval.
  - e) Presentation of Refunds of Contributions for approval.
  - f) Presentation of Bills and Remittances for approval.
  - g) Walter H. Parks - #12395 - Resigned and vested under Section 11 of the Plan.
  - h) Dennis H. Ryan - #15103 - Resigned and vested under Section 11 of the Plan.
7. Old Business
8. New Business
9. Executive Session
10. Adjournment

RETIREMENT PLAN FOR CTA EMPLOYEES

10 SOUTH RIVERSIDE PLAZA

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RETIREMENT ALLOWANCE COMMITTEE MEMBERS AND ALTERNATES

THIS IS TO ANNOUNCE THAT THE MEETING OF THE SUBCOMMITTEE ON GENERAL ADMINISTRATION WILL BE HELD TUESDAY, NOV. 24, 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 598th Meeting of the Retirement Allowance Committee was held on Tuesday, November 24, 1998, at the Northern Trust Company, 50 South La Salle Street, 6th Floor, the following were in attendance:

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

Mr. I. Thomas, Vice Chairman  
Mr. J. Williams  
Mr. L. Brown

L. Morris sat in W. Black's stead. J. Guerrero sat in T. Collins' stead. Alternates also present were R. Baughn, B. Rayford and R. Winston. 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, MacKay & Serritella was present. Messrs. C. Wesley, J. Henderson, B. C. Gilmore and M. Barnes were also in attendance.

1. The Chairman called the meeting to order at 11:00 A.M.

Mr. Thomas introduced J. Guerrero as the alternate who was replacing R. Baughn. He also introduced M. Barnes who will be attending the meetings.

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 597th Meeting as follows:

Page 1, line 1, change "585th" to -- 597th --

Page 3, 2nd full paragraph, change "Ms. Rayford gave a report to each committee member to be reviewed by Mr. Joachimi." to

-- Ms. Rayford gave a letter to each Committee Member with a list of minority managers requesting specific information to be supplied for each one by Mr. Joachimi. The Committee okayed the request by Ms. Rayford and instructed Mr. Joachimi to supply the information. -

Page 17, 3rd full paragraph, delete "unanimously approved" and insert -- voted as follows regarding -- .

On a motion by D. Anosike, seconding by I. Thomas, the Committee unanimously approved the Minutes with the above changes.

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

Mr. Joachimi informed the Committee that the Fund is ahead about 6% for the year. There has been a huge move in the market. He discussed the asset allocation and said we have about 76% of the Fund's money in equity.

In fixed income, there is about 24%. We are way under our fixed income exposure which is set at 35% plus or minus 5%. His number one recommendation at the moment is that we have to complete another study and work together with the actuaries. They probably will recommend an increase in equity exposure. The Plan will have to take a little more of a risk in the long run to meet the benefit payouts, etc. and not damage the size of the Fund. We were at 70% plus or minus 5%. Mr. Joachimi said he may be asking the Committee to go back to that level and possibly slightly higher. Mr. Ross reported that the Pension Office pays out approximately \$180 million a year.

Mr. Anosike asked about alternative investments. Mr. Joachimi said the reason for alternative investments is not that you are going to have huge returns, but when those investments do extremely well, the typical market is not doing as well.

Mr. Joachimi said there was going to be a study that will give you those facts. Mr. Kallianis wanted to know if we run a risk of having an investment strategy that we voted on that we would now not be following. Mr. Joachimi said because we put plus or minus 5% around these, I think we do run a fiduciary risk of not balancing back. Historically, the funding comes from fixed income. As we fund other programs, it is easier to take it from fixed income. This and puts a little more pressure on our system. The Plan should be closer to 65% based on the policy. If we followed the Plan, we would not be at 76% in equities but closer to 65 or 70%. Basically, what they told the members was the pay out for benefit payments is not going down, it will be going up. He felt the Committee should wait until they have the full study from the Actuary to change this. Mr. Joachimi said if we have an idea from the Actuary what we are looking at for funding and plan funding for the retired lives, we will be able to come up with a better overall plan. We do not time anything. Timing anything is difficult and does not work. The key is he said that the Fund is forever and that the only thing that is changing is the retired lives.

Mr. Brown asked how many more people were retiring with the incentive plan. Mr. Forte said it is approximately 500.

Mr. Joachimi said they will do an update working with the actuary and come back with a firm recommendation on asset allocation changes to the Plan and hope it

could be prepared by the December meeting. Ms. Rayford asked if the report could include increasing the contribution and wants the report to show what he did and why he recommended it. Mr. Joachimi said he will go through it step by step.

Mr. Joachimi said they know the fund that Weiss, Peck & Greer will speak about. We do believe in alternative products. Mr. Monagle discussed alternative products.

Discovery Ventures II was represented by J. Kiley, G. Cogan from Weiss Peck & Greer and Mr. Arnold Silverman from Discovery Ventures. They are working together on this new fund. Mr. Kiley said Weiss, Peck & Greer were there as the Fund's investment Advisor. Weiss, Peck & Greer was very interested in what Mr. Silverman does because he is regarded as one of the best software investors in the United States. Mr. Silverman invests in areas that Weiss cannot because the investments are so small. Once he discovers them, he needs a second round of investors and that is where the CTA Pension Plan money comes in. Four or five of the great deals that the Plan had in their portfolio in the last couple years have come directly from Arnold's work. Mr. Silverman spoke about the Discovery Ventures III fund which is a continuation of many years of successful software investing both as a private investor and with Discovery Ventures I and II.

The focus of the Fund is on software. He said they only invest where extraordinary people are involved. Mr. Silverman said Weiss will be general partner. He discussed why they invest in software. He said part of the opportunities to get excellent returns in software is to be able to invest at the early stage. It becomes more difficult for the larger firms to do that. The relationship with Weiss will bring a positive thing to both companies because we will share deal flows. He felt he could bring very good deal flow in the software business. They will be brainstorming together and they will share ideas. He will be able to spend all his time focusing on the companies where value is really exceptional. Weiss, Peck & Greer will be putting money in the fund. He will be putting \$2 million in the fund. He is able to go out and bring in good venture partners.

Mr. Kallianis asked what is the usual time frame for a call for capital. Mr. Silverman said the first couple of years they would call for approximately one-third to 35% of the capital and the balance over several years after that. It will be 5 years before the full amount is called for. They are looking for a \$5 million commitment. They would like to close the first few weeks of December according to Mr. Kiley. They are holding a spot for the CTA Pension Plan. The Plan Attorney asked if the fund terminates in 10 years. Mr. Silverman said the Fund has options to renew on one year periods.

Mr. Joachimi looked at investing in this fund as a plus. He felt a commitment is worthwhile.

Mr. Thomas asked where is the money coming from. Mr. Kallianis said from one of the equities. There was further discussion about this fund. Mr. Thomas asked if they can put off voting on it until next month. Some members had doubts and wanted to check further. Mr. Kallianis will speak to the people from Discovery Ventures to see if they can hold open a place for them a few more weeks.

Ms. Rayford had a question about who the Plan was going to hire for fixed income.

Mr. Joachimi spoke about the three managers who were released, Weiss, Peck & Greer, Bear Stearns and NCM. We looked at 4 Chicago managers Harris, Brinson, ABM AMRO and Camco and there was a recommendation from Mr. Collins. The Committee decided it should be discussed at the December meeting. There was a request that we look at the available minority managers and MDL, is a minority fixed income manager. Mr. Joachimi recommend that we should at the minimum commit about \$25 million to MDL.

On a motion by Mr. Kallianis, seconded by Mr. Thomas, the Committee unanimously approved giving \$25 million to MDL.

Mr. Joachimi felt the money should be taken half from Amalgamated and half from Chicago Trust.

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

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

The three issues to be discussed are: the second quarter performance report. Mr. Berlin will identify candidates for the value added commingled fund and also the Committee wanted Townsend to identify minority or disadvantaged real estate investors.

Before Mr. Berlin's presentation, Ms. Leonis discussed REIT's and the article in Crain's about the down turn. According to Mr. Berlin, they are down about 15%.

Mr. Berlin discussed the Second Quarter Performance Measurement Report for 1998. The Fund had a very strong quarter with a gross return of 5.2% that compared very favorably with the NCREIF which was 3.9%. This was in large part due to the sale of the 711 Jorie Blvd. It outpaced the Index for the quarter but it is still lagging the Index for the 1, 3 and 5 year returns. There is \$67.9 million to invest today. If all the dispositions happen in the near future there will be a total of \$98.6 million to invest. He discussed some of the highlights of what has happened recently in the portfolio. Meridian Business Campus is under contract to Duke

Realty for a contract price of \$40.9 million. CTA has about 27% interest in that investment. Subsequent, to that contract RREEF has also sold some of the parcels they had under contract so the gross proceeds will be more than \$40.9 million. RREEF anticipates closing on that investment prior to December 31, 1998 so CTA should be getting back between \$10.5 and \$11 million from that investment.

RREEF Venture Capital Fund continues to invest and they are about 90% committed to date although they have drawn down about 25% of their capital.

191 N. Wacker - The Committee agreed to extend the closing date for Hines until February 15, 1999. Hines put up an additional \$250,000.

Elk Grove - the deal fell through. RREEF is trying to re-market that property.

Metric currently has two assets under contract. The total sales proceeds would be approximately \$34 million, and the Plan would get a net sales proceeds of \$4.5 million. The funds should be distributed in late December or early January. That would leave 5 assets left in that investment.

Mr. Berlin said of the \$100 million there is to invest, \$20 million is earmarked for the value added or non-core investments. These are institutional quality assets but may require some renovation and some repositioning in terms of the market; or may release the management who may not be paying much attention to the asset. There is an opportunity to buy the asset and create some value and there is also an opportunity to create some cash flow at the same time. That is why these are called value added investments.

The objective is to identify potential investments to fulfill the strategic allocation to value added investments. At the present time, there is \$25 million invested in value added. 60% of the portfolio would be private core and also 20% for public core which are REIT's. We are working on the private non-core/value investments.

Mr. Berlin discussed the process they follow to identify value added funds. They examined 23 or 24 funds. Townsend has recommended a list of qualified investments to the CTA Real Estate Subcommittee. These funds can come in at the next meeting and make their presentations. The Committee can then make their determinations on who they want to select.

Mr. Berlin said the Plan was heavy into the office market and the Midwest That has changed since some of the RREEF assets have been sold. The Plan is a little heavy in multi-family property types. After the disposition being made right now we will not be too heavy in the Midwest.

They chose three funds to recommend:

TA Associates Fund V from Boston invests in small to medium size properties in the range of \$10 million to \$15 million range that have an identifiable asset. It would be geographically diversified. The fund will have a total gross asset value of between \$500 and \$775 million. The sponsor, TA Associates will be putting up some capital. They have an initial close date of December, 1998. They will have a second closing subsequent to that approximately 3 or 4 months after that. The minimum investment is \$5 million.

Miller Global III, a development firm from Denver, will develop and acquire commercial properties, primarily office building. This group developed Pebble Beach and other resorts. This is more risk because of developmental property.

Koll Bren VI from California is a new fund that will be coming out soon. This is a moderate risk. It has a very similar strategy to TA Associates. Their focus is on more office and industrial acquisition. They are also looking at medium size \$10 to \$15 million acquisitions. They have been very successful in the five previous funds. Their first four funds were higher on the risk spectrum. Their last fund was strictly value added which is consistent with what the Plan wants to do.

Mr. Berlin said it is a good time to be a buyer of property. There is a lot of money from REIT's Public Sector buying all these deals and pushing up the prices.

Mr. Berlin discussed qualified minority firms. He spoke about Capri. They are not consistent with the Strategic Plan. Capri is a debt fund. They would give developers or other parties buying assets mortgages. They will the second mortgage. They are in a higher risk position. They have higher yields because of this.

Mr. Berlin recommend that Miller Global, Koll Bren and TA come before the Committee to give a presentation.

They spoke about Kennedy and Mr. Williams asked that they come before the Committee too. They also asked for Capri to come and speak to the Committee because the Committee wanted to speak to this minority firm.

There was a discussion about when to bring in these people. No decision was made.

6. Mr. L. Sanford, Vice-Chairman of the General Administration Subcommittee, reported on the meeting held this date.

Mr. Sanford requested approval of items 6a through h.

They discussed Mr. Miles Eddy who was requesting retro-activity to March 1, 1998. He had 4 years when he went off sick. He did not know he had enough time



because of age to retire. He did not have enough time to go on disability.

There was a discussion about Dennis Ryan. Mr. Forte said he resigned and was vesting for old age pension and when he is 65 years old he will be able to draw pension at the rate of 1.85% with the amount of years that he had at the time he went out. Mr. Sanford said he did not resign but Mr. Forte said that is the information that was received in the Pension Office. In other words, no matter if he resigned or was suspended he still has the right to vest

Mr. Forte discussed a settlement that was reached regarding Owen, a deceased retiree. There is a settlement where the ex-wife is willing to pay back \$8000 and the Pension Office will have to pay \$12,500. Mr. Thomas asked why the liability rested with the Plan. Mr. Forte said that when the divorce degree came into office, it said the woman had no more ties or anything with regard to the pension. The person that was reading the divorce degree did not read it nor did the CTA auditors so we paid the money out to the ex-wife. Since all that has gone through the court and they wanted to settle it. Mr. Forte had copies of this settlement that Mr. Anosike had to sign.

The Plan Attorney then explained further about the Owen situation. Mr. Owen, was married, divorced and subsequently passed away. After he passed away, there was a payment of some \$25,000 made by the Retirement Office to his ex-wife. The ex-wife's settlement agreement provided she released and waived any and all claims whatsoever to entitlement to his pension benefits. That was in the file however it was not picked up and noticed when the death benefit was paid to the ex-wife, Donna Pryor. The children and mother of the deceased employee then made claim that they were entitled to that money, and they wanted to be paid \$25,000. We asked the Court for some direction. We brought the former wife into the litigation so that she should be responsible. She argued. Before the matter went to trial we were able to obtain a settlement agreement along the following lines:

The Retirement Plan would pay \$12,500 to the mother and the children and collect \$8,000 back from Donna Pryor so there would be a net cost to the Retirement Plan of \$4,500.

On a motion by Mr. Brown, seconded by Mr. Thomas, the Committee unanimously approved Mr. Anosike, Chairman, signing the settlement agreement.

Mr. Burke discussed the auditor and the special project. He discussed that after the last meeting 4 weeks ago he called Eileen Winikates, Ernst and Young, and advised her that we had discussed this and Ms. Black was going to make documentation available and encouraged her to speak to Ms. Black. He said he had a difficult time reaching her and said she does not return phone calls. Mr. Burke told her he had to have an updated report for today's meeting (November 24). She said she was

aware of that. He called her back twice on November 9. On November 16, he had a meeting with Mr. Anosike regarding the agenda. Mr. Burke called her from that office. No answer back. He called her November 17 - no answer back. He called her before the meeting today and she is due back today. Ms. Leonis felt we need new auditors. Mr. Burke said Mr. Shanley is out of the country. Mr. Ross informed him that he has gone to another position.

Ms. Winikates is now the partner on the account. Mr. Williams felt they should go on a search. Mr. Ross said the contract goes until September, 1999. Mr. Burke said their contract can be canceled with a 30 day notice. Mr. Burke said if the Committee is going to change auditors, this will be a good time before they do the 1998 audit. Ms. Leonis felt the 30 days notice should be given December 1. Part of the agreement she felt is they must complete the project within the thirty days. They are not going to be paid the next thirty days to do nothing. Mr. Brown asked if they were paid on a monthly basis or on an "as do" basis. Mr. Ross said this is a separate project and this is over and above their contract. He did not feel there had been a figure put on it. Mr. Burke said he understood this special project would be on an hourly basis.

On a motion by Ms. Leonis, seconded by Mr. Williams, the Committee unanimously approved advising Ernst to finish the special project they are working on now and report back to the Committee by December 15 and put them on notice that they should not do any work for the 1998 audit until further notice. On a motion by Ms. Leonis, seconded by Mr. Williams, the Committee unanimously approved appointing a Search Committee to find a new auditor.

Mr. Morris said there are 8 or 9 board members waiting to retire. They can retire at this meeting if he could find out who is the person that makes the decision whether the board members are allowed to retire. CTA will not issue the order that these people can retire. He wanted to know who gives the permission to retire. Mr. Anosike said it depended on what department the individuals worked at. Mr. Morris said they were bus operators. Mr. Winston said he was in charge of bus drivers. CTA had not assigned the date for these gentlemen to retire. Mr. Winston said he understood that they were waiting until the appropriate eligible earnings were decided. Ms. Rayford said people who have put their application in after these individuals have been allowed to go. Ms. Rayford said we have to sit down with the CTA Ms. Rayford and Mr. Anosike discussed what Mr. Winston said. She understood they had to wait until Mr. Baughn's issue was settled before they let them retire. Mr. Anosike said it was a secondary issue. Ms. Rayford said we have to sit down with CTA and explain why they are not allowed to go. After they are allowed to go, we will then determine how they will be paid like Mr. Baughn.

Mr. Williams asked if they are going to get a date, and they could then leave under the same scenario as the other two Board Members. Mr. Winston said it is not

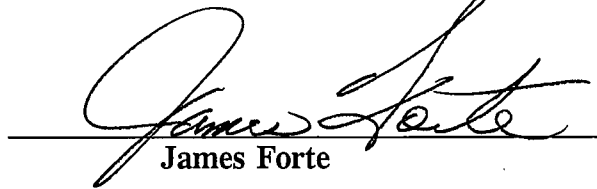
their intention to hold anyone. Mr. Morris said one of the individuals has been sick and the sick benefits ran out 18 months ago. This person is in a desperate financial situation. Mr. Morris said the Committee cannot move until he gets a date. He felt it was unreasonable to do this to this individual. Mr. Sanford said they will take this under consideration.

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

7. Old Business - Plan Attorney discussed how Ms. Rayford at the last meeting raised a question of whether the contributions of an employee could be changed to pre-tax basis instead of a post tax basis. That is permissible under tax law. The effect would be it would give an employee a higher take home pay but it would have a downside effect that more of their benefits would be taxable when they were going to receive them because they would not have a tax basis established for contributions by the individual employee. This could be accomplished not by the Committee but in the Employee Bargaining context on how that contribution formula would go. She felt it was already passed that we would go to tax deferred. Mr. Burke thought it was a study authorizing but the ultimate call would be in collective bargaining. He did not think it had come to the Committee to make the judgment call.
8. New Business - None
9. Executive Session - The Committee moved to Executive Session at 11:35 A.M. and according to the Plan Attorney appointed a Committee to find a new auditor and other advisors. The Committee consists of I. Thomas, J. Williams, S. Leonis and J. Kallianis and they will report back within 60 days.
10. Adjournment - There being no further business, the Committee adjourned at 12:05 P.M.



Chairman,  
Retirement Allowance Committee



James Forte

Dated: December 22, 1998