

The 690th Meeting of the Retirement Allowance Committee of the Retirement Plan for Chicago Transit Authority Employees

Meeting Minutes

A regular meeting of the Retirement Allowance Committee was held on September 28, 2006 at 161 North Clark Street, 28th Floor. The Chairman and the Executive Director were present.

A roll call was taken indicating that the following members were present:

Darrell Jefferson
John Burkard
Mark Maloney as an alternate for Richard Winston, then for Dennis Anosike
Rick Harris
Carl Lingenfelter
Lynn Sapyta
Luis Cantu as an alternate for Paul Sidrys
Michael Simmons
Darryle West

On a motion by Mr. Burkard, the minutes of the 689th meeting of the RAC were approved with a correction submitted by Mr. Lingenfelter. Mr. Lingenfelter wanted to make it clear that the Subcommittee had confirmed, through Gray and Company, that each of the Plan's MWBE managers was owned by MWBE owners.

General Administration Subcommittee Items

Mr. Simmons presented for approval items 4 (a) through 4 (k), including the death reports since last meeting, pre-retirement allowances, new retirement applications, return to work from disability allowance, disability summary, retirement applications revoked, death benefits, refunds of contributions, bills and remittances, disability benefits for Judy Murchison and the cash flow statement. Mr. Simmons stated that the total amount of bills and remittances for the month was \$7,347,025.92.

Mr. Kallianis explained item (j) - the disability benefits for Judy Murchison to the Committee members. He explained that Mrs. Murchison was on disability allowance since 2004. Mrs. Murchison had been sick during the past 10 years and had lower than normal pay in those years. The Flex Quote system, which calculated her pension allowance dictated by the Plan, did not take into account the time prior to the last ten years, which included three of her high salary years. Mrs. Murchison has asked the Committee to consider substituting three years from beyond her last 10 years to substitute for the three years she was out sick and had a lower pay level. Mr. Kallianis recommended that the RAC approve her request.

Mr. Simmons called the Committees attention to item 4 (k) - the cash flow statement that Ms. Sapyta has asked to be incorporated into the General Administration agenda. The most recent statement indicated negative cash flow of approximately \$83 million through the end of August.

On a motion by Mr. West, the Committee approved the General Administration Subcommittee report including item 4(k) - the disability benefits for Mrs. Judy Murchison.

Investment Subcommittee Items

Mr. Lingenfelter asked Mr. Kelsen give a presentation on the Plan's private equity and hedge funds. Mr. Kelsen gave an overview of the hedge fund portfolio, created at the beginning of the year. Mr. Kelsen reported that the hedge funds had a net return for the Plan of 6.04 percent for the year, out performing the Lehman Aggregate by 388 basis points and the S&P by 25 basis points.

Mr. Kelsen also reported that Deerfield Capital Management is closing their fund down due to a parent company decision and returning capital to the investors at the end of the month. He indicated that the Harbinger fund would be a good substitute for Deerfield and included information on the fund for the Committee.

After some research with the staff and managers, the current market value of the private equity portfolio is \$65,270,000, which is 5.43 percent of your portfolio against a target of 6 percent.

Mr. Kelsen further reported that Gray had completed the review of global fund of funds at the direction of the Investment Subcommittee. As he had previously reported, AIG has an institutional quality product capable of producing what the Plan wants. He indicated that it would be a complimentary addition to the private equity portfolio. He also reported on Nexos Capital as a possible alternative for AA Capital in a minority-owned manager mandate. Nexos Capital is a Hispanic owned firm. They're looking to raise \$225 million.

The private equity portfolio is currently at 40 percent buyout, 49 percent venture capital, almost zero mezzanine, 7 percent international buyout, and very small international venture.

Mr. Lingenfelter suggested that the Committee approve a \$28 million allocation to private equity with the idea that the Investment Subcommittee would meet with some recommended managers and then come back with a list of recommendations to be approved next month. After some discussion, on a motion by Mr. Simmons, the Committee approved a \$3 to \$5 million commitment to AIG. Mr. Lingenfelter voted present on the motion.

On a motion by Mr. Harris, the Committee approved a \$25 million commitment for private equity funds to be made by the end of the year. Mr. Kelsen will make recommendations to the Subcommittee for consideration and approval by the full Committee.

Real Estate Subcommittee Items

Mr. Winston asked Ms. Cachat from the Townsend Group to give the second quarter performance report for 2006. Ms. Cachat stated that the market value of the portfolio was \$139.9 million. She further stated that the rolling net return over a five-year period was 8.7 percent, which far exceeded the benchmark of 5.5 percent. On the rolling one-year period, the portfolio delivered a 23.5% return. The stable portfolio generated approximately 17 percent total gross return. Total portfolio performance over the one-year period has exceeded the benchmark over 480 basis points over the three, five, and since inception times period, the portfolio continues to beat the NPI by 130 and 80 points respectively.

Ms. Cachat then spoke about a memo from DV Urban including a capital call notice and request for consents. She indicated that Townsend's main concern on behalf of the Plan was whether DV was asking for an approval of the investment in its entirety or just an approval of the temporary leverage increase. Townsend determined through discussions that it was consent for a temporary leverage increase because the fund is new. There's no advisory committee established yet.

On a motion by Mr. West, the Committee consented to a temporary increase to the leverage amount for DV Urban. Mr. Lingenfelter recused himself from the vote.

On a motion by Mr. Harris, the Committee approved the Real Estate Subcommittee report.

Old Business

Mr. Kallianis had Mr. Ken Yu from Hill Taylor present the results of the year ending 2005 audit. Mr. Yu presented the complete financial statement for 2005. The total investment at fair value for the Plan at the end of the year on a combined basis, about \$1.3 billion, which is \$129 million less than the year before, the net asset about \$1.2 billion are assets less the liabilities compared to \$1.3 billion for the year before due to lower investment return and benefit payment withdrawals. Total employer and employee contributions: about \$45.6 million in 2005, and \$45.8 million in 2004, a slight drop. Total benefit payments at \$236 million for 2005, \$27 million less than the total benefit payment for 2004, \$263 million. The Plan fund ratio dropped from 39.4 percent in 2004 to 34.4 percent in 2005. Mr. Yu submitted a Management Letter document to the Committee with the following recommendations:

- Explore alternative funding such as having health care outside the Pension Plan,
- Other methods to maintain the 401(h) tax exempt status,
- Increase the funding levels/consider additional funding, and
- Increase employer/employee pension contributions

Mr. Rivera and Mr. Plautz with Gabriel Roder Smith presented the results of the actuarial valuation for January 1, 2006. They indicated that there was nothing new in the projections. Assets are expected to be depleted by roughly 2013. The primary reason for

the decline is the relationship of benefits being paid versus contributions being made to the Trust. Mr. Rivera concluded as Mr. Yu had earlier, that the Committee should consider other funding methods.

Mr. Kallianis updated the Committee on the Medicare Part D reimbursement. We received our first reimbursement in the amount of \$1,612,752.26 for our cost on prescription drug benefits from Medicare.

New Business

No business

Executive Session

The Committee approved a motion by Mr. Winston to go to Executive Session to discuss some litigation issues.

Full Regular Meeting

The Committee was adjourned on a motion by Mr. Simmons.