

Retirement Plan for CTA Employees

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TO: Retirement Allowance Committee Members and Alternates

FROM:



John V. Kallianis

DATE: April 19, 2007

RE: Retirement Allowance Committee Meeting

This is to announce that the Retirement Allowance Committee Meeting will be held Thursday, April 26, 2007 at 9:30 a.m., LaSalle Bank, 135 S. LaSalle in the Conference Room ABC, on the 43rd floor.

If you have any questions, please call me at (312) 463-0350.

JVK:gmb

AGENDA
For the 697 Retirement Allowance Committee Meeting of
April 26, 2007

1. Meeting will be called to order at 9:30 a.m., LaSalle Bank, 135 S. LaSalle, in the Conference Room ABC, on the 43rd floor.
2. Roll call
3. Consideration of the Minutes of the 696th meeting
4. General Administration Subcommittee Issues
 - a.) Announcements of deaths reported since last meeting
 - b.) Presentation of pre-retirement allowances for approval
 - c.) Presentation of new retirement applications for approval
 - d.) Return to work from disability allowances
 - e.) Disability summary
 - f.) Retirement applications revoked
 - g.) Voiding benefits Elvin White, Jr. #40419
 - h.) Presentation of bills and remittances
 - i.) Cash Flow Statement YTD
5. Investment Subcommittee Issues
 - a.) Asset Allocation
6. Real Estate Subcommittee Issues
 - a.) Approval of ACSS Dollars Proposal
7. Old Business
 - a.) 401h Status
 - b.) Letter to Participants
8. New Business
9. Executive Session
 - a.) Personnel matters
 - b.) Litigation
10. Adjournment

The 696th 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 March 22, 2007 at LaSalle Bank, 135 S. LaSalle. The Chairman and the Executive Director were present.

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

Dennis Anosike
James Kasmer for John Burkard
Rick Harris
Darrell Jefferson
Carl Lingenfelter
Lynn Sapyta
Paul Sidrys
Michael Simmons
Darryle West
Richard Winston

On a motion by Mr. Anosike, the minutes for the 694th and 695th meetings of the RAC were approved with the correction that Mr. Bayer was present for Mr. Simmons at both of those meetings.

General Administration Subcommittee Items

Mr. Simmons presented for approval items 4 (a) through 4 (h), including the death reports since last meeting, pre-retirement allowances, new retirement applications, return to work from disability allowance, disability summary, election of deferred vested old age retirement allowance, retirement applications revoked, death benefits, refunds of contributions, bills and remittances, and the cash flow statement. Mr. Simmons stated that the total amount of bills and remittances for the month was \$7,597,187.23. Item 4 (i) was the year-to-date cash flow statement. The Plan had a negative cash flow through February 2007, of \$25,574,710.

Mr. Jefferson asked have there been any new people found fit to work. Mr. Kallianis stated that since the program began in August of 2004, the number of cases that were actively being reviewed had gone down from 900 to just about 300 and that the ongoing costs associated with the program had also dropped. Mr. Kallianis indicated that from 2005 to 2006, the number of people receiving disability benefits had actually dropped for the first time in 20 years. Mr. Kallianis is going to come back with a report on the Disability Management Program at the April meeting.

On a motion by Mr. Sapyta, the Committee approved the General Administration Subcommittee report.

Investment Subcommittee Items

Mr. West had Mr. Day from Gray and Company to give the quarterly report to the Committee. Mr. Day reported that the Plan's total return was over 8.9% for the ten year period ending December 31, 2006, compared to a benchmark index that returned 6.9%; a full 200 basis point difference. The five-year performance was 7.9%, compared to 5.3%. The three-year performance was 11.1% compared to 9.3%. Mr. Day further stated that returns above the benchmark amount to approximately \$96 million over the ten-year period, \$101 million over the five-year period, \$41 million over the three-year period and \$13 million for the one-year period. Mr. Day pointed out that the out-performance was an indication that your managers, collectively, have done a good job over that time period. He said that the RAC should be congratulated for having selected these managers in the first place, and having stuck with them through the down periods of the Bear Market.

Mr. Anosike asked Mr. Day if it is possible to compare this performance to peer funds to see how their performance has trended over the same time period. Mr. Day stated that it is possible to compare, however the comparison isn't very useful. Mr. Day suggested that an organization such as Pensions and Investments collect data from public funds. He said that he would try to talk with them to find out if there are Plans that we could be compared with.

Mr. Jefferson expressed concern about some newspaper articles that say the Plan is going broke when the Plan is out performing its benchmark. Mr. Day said that his understanding is that the investment performance is about the only thing the RAC has any control over - through asset allocation and manager selection. He further stated that a fund grows through contributions and investment performance, those two things are supposed to be able to meet the liabilities over the long term. The bottom line is that the quarterly returns you see really don't have any relationship to the articles. The people that are writing those things are not considering the contribution benefit level which is the other part of the solution that needs to be addressed.

Mr. Lingenfelter suggested that maybe the way we could tell the story - without going through all of the details about why it doesn't make sense to compare CTA to five other public funds - is to come up with a couple public funds that maybe have an 8 ¼ or 8 ½ percent return and similar asset allocation. Mr. Day indicated that he would look for some funds that have similar actuarial return assumptions on the public side and try to make that comparison for the Committee.

Mr. Kallianis pointed out that, in the draft letter to the retirees, the first sentence of the second paragraph states "The Retirement Plan in bad shape today because there have been insufficient contributions coming into the Plan since 1982". He further stated that anyone who knows the real story needs to spread this out there to make sure people understand it.

Mr. Day commented on a couple of managers that did under-perform. Alliance Capital had a 1.7% one-year return, compared to the index of 9.1% and that Ariel Capital had under-performed on their mid cap and the small cap funds. Mr. Day explained that Ariel did not invest in certain sectors, specifically telecommunications and energy. These sectors have done very well in the last one and one-half years and Ariel's performance had suffered as a result. He added that Ariel's performance was better when these sectors were not in favor and that their portfolio, in combination with the Plan's other mid and small cap managers, resulted in favorable long-term performance. Mr. Day indicated that Alliance had not done as well recently because they are a growth manager and that growth has been out of favor for some time. He also indicated that the Russell 1000 Growth Index was not necessarily the best index to compare Alliance's performance to, but they had picked it when they were hired.

Real Estate Subcommittee Items

Mr. Cachat, from the Townsend Group, reported that the market value of the portfolio at the end of the quarter was approximately \$133.7 million, and generated a 7.8% return for the quarter. The benchmark for the portfolio is a 5.5% net real return over rolling 5 year periods, and the Plan's return was 10.3%. On the rolling 1 year period, the portfolio returned 18.6%.

Ms. Cachat also reported on the proposed amendments to DV Urban's agreement which requested that their advisory committee be changed. She indicated that Townsend went through the advisory agreement and the proposed changes and was in favor of the proposed changes. The original group was to be composed of up to five members, and now the agreement would be changed to three members of the financial community nominated by DV Urban. She indicated that DV was seeking majority approval of all of their investors.

On a motion by Mr. Harris, the Committee approved the changes to the DV Urban advisory committee agreement with Mr. Lingenfelter abstaining.

Old Business

Mr. Kallianis gave an update on the 401(h) status. He indicated that a 2 ¼ percent return through March 20th would coincide with a projected 9 percent for the year, ¾ of a point per month for the 12 months would be a 9 percent return for the year. Based on GRS's past analysis, there is a 50-50 chance that we would run out of money by July 2007; this would trigger possible loss of tax exempt status if we continued to pay health care benefits beyond that date.

Mr. Kallianis presented a draft letter to the participants in regards to the pension status. He has requested comments from the trustees and their alternates.

On a motion by Mr. Harris, the Committee authorized Mr. Kallianis to send the letter to the participants with the comments that the Trustees wanted to make in the letter. Mr. Anosike urged the Committee members to get their comments to Mr. Kallianis as soon as possible.

Ms. Sapyta expressed concern about the letter not having enough information about the investment earnings of the Plan, considering how well the Plan's assets have been managed. Mr. West expressed concern that the letter does not mention contributions were at 20 percent at one time and that it need more information on that. Mr. Kallianis assured the Committee he would work this information into the letter and that he'd like to keep it to one page of text with a chart on the back.

New Business

No New Business

Executive Session

No Old Business

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