

Retirement Plan for CTA Employees

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TO: Retirement Allowance Committee Members and Alternates

FROM:



John V. Kallianis

DATE: June 21, 2007

RE: Retirement Allowance Committee Meeting

This is to announce that the Retirement Allowance Committee Meeting will be held on Thursday, June 28, 2007 at 9:30 a.m., LaSalle Bank, 135 S. LaSalle in the Main Dining Room on the 43rd floor.

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

JVK:gmb

AGENDA
For the 699th Retirement Allowance Committee Meeting of
June 28, 2007

1. Meeting will be called to order at 9:30 a.m., LaSalle Bank, 135 S. LaSalle, in the Main Dining Room on the 43rd floor.
2. Roll call
3. Consideration of the Minutes of the 698th 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.) Retirement applications revoked
 - e.) Return to work from disability allowances
 - f.) Presentation of death benefits for approval
 - g.) Presentation of refunds of contributions for approval
 - h.) Presentation of bills and remittances
 - i.) Cash flow statement YTD
5. Investment Subcommittee Issues
 - a.) Mesirow Financial Private Equity Update
 - b.) 1st Quarter Performance (Gray & Co.)
 - c.) Alternatives Update
6. Real Estate Subcommittee Issues
 - a.) AFL Building Investment Trust Presentation
 - b.) 1st Quarter Performance (Townsend Group)
7. Old Business
 - a.) 401h Status
8. New Business
9. Executive Session
 - a.) Personnel matters
 - b.) Litigation
10. Adjournment

The 699th 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 June 28, 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
John Burkard
Rick Harris
Darrell Jefferson
Luis Cantu as an alternate for Carl Lingenfelter
Lynn Sapyta
Paul Sidrys
Michael Simmons
Darryle West
Richard Winston

On a motion by Mr. Sapyta, the minutes of the 698th RAC Committee meeting were approved.

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 \$6,960,187.16. Item 4 (i) was the estimated year-to-date cash flow statement. Mr. Simmons reported that the Plan had a cash flow through May 2007 of negative \$10,532,821.

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

Investment Subcommittee Items

Mr. Day from Gray and Company presented the Committee with the 1st quarter March 2007 performance report. For the 10 year period ending March 31, 2007, the Plan's return was 9.09 percent; ranking it in the 20th percentile of Plans with similar allocations. This was very favorable compared to the Plan's policy benchmark, which is 6.98 percent. For the 5 year period ending March 31, 2007, the return was 8.34 percent, ranking in the 20th percentile, compared to a 5.59 percent for the policy benchmark. For the 3 year period

ending March 31, 2007, the return was 11.3 percent, ranking in the 8th percentile, compare to your return of 9.12. For the one year period, the Plan was in the 13th percentile compared to similar plans, with an 11.99 percent return, compared to 9.5 percent. Mr. Day then translated the returns into dollars - the difference between what you have and what you would have achieved had you just invested passively in the benchmarks, the difference is striking. For the one-quarter period, a \$6.9 million advantage, for the one-year period, an \$11.7 million advantage, for the three-year period, a \$37.5 million advantage, for the five-year period, an \$82.7 million advantage, and for the ten-year period, a \$197.6 million advantage. Mr. Day also congratulated the Committee for sticking with the managers through trying times, especially during the bear market where all the numbers seemed to be red all the time. He indicated that many other funds would have terminated those managers and hired somebody else.

Mr. Hynes from Mesirow Financial reported on the private equity allocation that they manage for the Plan. Mr. Hynes introduced his colleague, Mr. Marc Sacks, Senior Managing Director at Mesirow Financial. Mr. Hynes explained that the Plan had committed a total of \$37.5 million, of which \$22.2 was already called by December 31, 2006, with \$33 million in total value created from that \$22.2 million. Six million of the value was in distributions and \$27 million is in the Plan's capital account, resulting in a combined net IRR at December 31, 2006 of 18.3 percent.

Mr. Sacks said that as of June 2007, the Plan actually made an additional \$1 million capital call, so the Plan's called capital is actually \$23.4 million, bringing your contributed capital to about 67 percent of committed capital. Mesirow had also doubled the amount of cash they distributed to the Plan through June 15th to \$8.2 million. Mr. Sacks gave a brief update on the Fund investment activity as of June 2007 and the Fund's Portfolio Performance Summary as of March 2007. He also updated the Committee on the 2001 Direct/Co-Investment Fund 1st Quartile Performance as of March 2007 and discussed the MPF IV Partnership Pipeline.

Real Estate Subcommittee Items

Mr. Winston called the Real Estate Subcommittee to order and had Ms. Sarah Cachat with the Townsend Group give a report on the 1st Quarter Performance.

Ms. Cachat indicated that at the end of the first quarter, the market value of the portfolio was \$136.2 million. It had generated a 4 percent return in which was in excess of the NPI's return. On a rolling one year basis the portfolio generated a 19.7 percent return, and continues to beat the NPI for all time periods -one-year, three-year, five, and since inception. This quarter the excess of the NPI ranged between 40 and 310 basis point, which is outstanding.

Mr. Winston asked that the people from the AFL-CIO Building Investment Trust present for the Committee. This presentation was being made as result of a motion by Calvin Tillery at the May, 2007 meeting.

Mr. Arnold introduced himself as Executive Vice-President, Mr. Robert Molofsky as Vice-President and Special Counsel, and Kevin McCarthy President and Chief Investment Officer of the AFL-CIO Building Investment Trust Corporation. Mr. Arnold said that, since 1965, the AFL-CIO program had only sponsored in Housing Investment Trust dedicated entirely to residential properties with over 400 investors and has not had any equity ownership in real property. It invests in secured mortgages and mortgage-backed securities. In 1988 the AFL-CIO took steps to expand to invest in construction loans and permanent mortgages on commercial and industrial real estate. Four or five years ago the AFL-CIO took steps with their trustees and with the advisory board to accelerate the movement toward equity and today we are an equity program. The Trust's mission overall is to provide pension plans that have union-member beneficiaries good means to invest in real estate that provide a high degree of security, competitive returns, but also achieve other goals and objectives that are deemed important by the labor movement. Those objectives include, the creation of jobs, the expansion of housing and community development in areas where union members live and work. The Building Investment Trust manages \$2.6 billion in assets. Mr. Arnold indicated that they would hope that in the future, if the Plan had an opportunity to reallocate funds in real estate, that it will certainly consider the Building Investment Trust. They would welcome the Plan, with the other 33 investors from Illinois.

Old Business

Mr. Kallianis gave an update on the 401(h) status. The fund gross returns through the close business on Tuesday were up approximately 7.7%, exceeding our $\frac{3}{4}$ of a point per month required to continue the 401h account through the end of 2007. GRS has been a bit sidetracked because of the things that have been going back and forth with the Speaker's Office - those projections they've been asked to run by Alex Rivera.

On the Milton Matos case, Mr. Burke has drafted a proposed amendment to the Plan to allow for disability allowance for specific instances of people being injured in the line of duty during military leave. Mr. Simmons asked what happens in the case of a death during the line of duty; what the possibilities were there in terms of the A $\frac{1}{2}$ automatic survivorship option. Mr. Kallianis indicated that the Plan is silent on that; but that he would discuss that issue with Mr. Burke and make sure that's covered, as well.

New Business

Mr. Harris inquired about investments that the Plan may have with Sudan and what Plans we may have to consider divesting from them.

Mr. Burke explained the history behind the Illinois Legislation that barred investment in Sudan and other prohibited countries and how the legislation was challenged in the Federal Courts and was found to be unconstitutional. However, he explained that the contracts we had negotiated during the period of time while that legislation was in effect still have that requirement in there and that the Committee could pursue a policy of it's own if it chose to do so.

Mr. Harris congratulated those Committee members that were involved in the recent negotiations and arbitration award that will rescue the Pension Plan once the State Legislators and the Governor approve the proposed legislation on the CTA Pension and Retiree Health Care.

Executive Session

None

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