CITY OF MERIDEN

Pension Fund Update, August 14, 2012

Printer-Friendly Version

Meriden Retirement Board

Tuesday – August 14, 2012

.

-

Overview

Despite some disappointing forecasts, second-quarter earnings have provided sufficient hope for investors to drive market indexes higher over the past six weeks, posting choppy but steady upward progress during the slow-trading summer months. Our portfolio strategy team remains optimistic that a forceful "whatever it takes" explicit 2% inflation target may be part of another quantitative easing initiative (QE3) from the Federal Reserve Board, supporting our projection for strong equity returns during the second half of the year. Stimulus can come in several forms. Perhaps the markets will respond ahead of the Fed, as investors tend to anticipate policy changes at home and abroad and alleviate the pressure on policymakers to act.

Our view is that the Fed has a potential two-stage effect on equities. In Stage One, interest rates at or near 0% would inflate margins, to which investors would apply a "peak earnings discount." But in a potential Stage Two, the actual achievement of 2% inflation would expand P/E multiples since that corresponds to the optimal Price/Earnings ratio (17x) of the past 140 years, considered the "sweet spot" for stocks. If S&P 500 P/E ratios begin to lift we would expect a back-up in 10-year Treasury yields, causing Utility shares to plunge and Financial Services to lead the market. The Fed may ultimately be beaten by deflation, our analysts say, but they don't think it will be linear, and with rampant over-confidence in the "risk-off" trade, investors have been committing to Treasury bonds and the US dollar, rather than equities. We take the other side, expecting the largest policy push-back in years, thus providing the fuel required for significantly higher investment returns.

In addition, the painfully slow but certain resolution of the Eurozone crisis should provide additional wind in the sails of large multinational firms, many of which are already turning higher.

Meriden Retirement Funds

The 2013 fiscal year began with a performance upturn of nearly two percent for the Meriden retirement funds in July, followed by another 1.4% gain during the first ten days of August. The OPEB Trust, which modestly underperformed in July, then outperformed the retirement accounts in August, has posted a 2.6% gain for the new fiscal year as of Friday night's close. Adjustments made by the Board last month shifted funds into value equities and raised the commitment to smaller capitalization growth companies. The Police/Fire fund remains slightly more aggressive in asset allocation (equity/fixed/alternatives) than the City Employees composite plan, presently at 60-21-19 compared to 56-26-18. Through last week, the retirement funds totaled $236.9 million, up more than $7.7 million in the fiscal year. The City Employees fund closed at $132.2 million, and the Police/Fire accounts totaled $104.7 million. The OPEB Trust topped $10 million for the first time, including its quarterly contribution and steady market performance.

Two liquidity developments within the policy allocation to alternative investments will affect opportunities this quarter, as the Board has reclaimed more than $2.2 million from a managed futures fund that provided double-digit monthly gains in both June and July, and will soon receive another $4.1 million in return on its investment in W.P. Carey's CPA-15 non-traded equity REIT. The September liquidity event for CPA-15 represents a total return of 190% on the original investment, including annual dividends of 6.21% to 7.35%.

This report is provided for the convenience of the client. While information contained herein has been obtained from sources believed reliable, price and performance data may be

incomplete. Clients should rely solely upon official statements and trade confirmations. Performance reporting is provided by Stifel Consulting Service.

Virtual Towns & Schools Website