City of Meriden, CT

Meriden City Hall, 142 East Main Street, Meriden, CT 06450

Pension Fund Update January 13, 2015

Meriden Retirement Board

Tuesday -January 13, 2015

Overview

Investment funds continue to pour into US markets, as uncertainty spreads through Europe and the Middle East. Analysts have been divided over the principal cause of plunging world oil prices, some citing over-supply as the US reduces its dependence on oil imports, while others are blaming reduced demand and forecasting a global slowdown. Saudi Arabia's unprecedented refusal to stabilize higher prices by reducing production remains a mystery. It may be a challenge to increased domestic output in the United States, a response to the Russian aggression in Ukraine and Crimea, or a combination of those and other geopolitical circumstances among OPEC nations. With prices down more than 50% since last June, economic pressure is mounting from Moscow to Caracas, from Texas to Tehran. Whatever the motivation, the fundamentals of energy production impact global politics and economies. Lower costs are encouraging for consumers and manufacturers, but undermine critical revenues of producing nations.

Volatility has accelerated in the New Year, with frequent triple-digit losses for the Dow Jones Industrials, followed by recoveries of like magnitude. Indicators reflect our domestic recovery has finally taken hold, with adjusted third quarter growth of 5% and continuing nominal employment gains. But average wages have declined and remain a serious concern; and the number of Americans who have left the workforce has reached a generational high. The Bureau of Labor Statistics reports the Labor Participation Rate fell to 67.2% last month, the lowest level of employment participation since 1977.

Stifel market strategist Barry Bannister anticipates 2015 to be the last in series of strong performing equity periods, powered by low rates, cheap energy, and policy moves globally that result in economic traction along with low inflation. However, he forecasts the now-overbought US Dollar will pull back by mid-year, as the Fed further postpones its QE exit. Improved growth prospects overseas may also shift the tone of the market by summer, and boost prospects for industrial and energy sectors.

Meriden Retirement Funds

The Meriden retirement funds gained 2.1% in the second fiscal quarter, offsetting declines from Q1. The OPEB Health Care Trust gained 3.9% and continues to outperform the pension accounts. Bonds and domestic equities performed best during 2014, while international stocks declined. In another humbling example of market dynamics, a universally predicted increase in US interest rates proved incorrect, most commodity prices (other than beef and coffee) fell sharply, and index investors outperformed managed futures and hedge funds. Among Meriden-held hedge positions, Alkeon fell 3.8% and EJF gained 6.1%. A noteworthy exception was Central Park Group's Activist Fund - up 23% at last report. Bill Ackman's Pershing Square and Nelson Peltz's Trian Partners comprise more than 90% of that CPG holding.

Meriden's investment policy statement (IPS) has been updated to include previously adopted initiatives. Recently engaged portfolio managers from Invesco (international equity) and Legg-Mason (core equity) are scheduled to present their strategies and forecasts to Board meetings in February and March.