CITY OF MERIDEN

Pension Fund Update, April 8, 2014

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Meriden Retirement Board

Tuesday – April 8, 2014

Overview

Just looking at the quarterly indexes, you might think Wall Street's in a sleepy little town where not much happens. US equities closed the first quarter of 2014 slightly higher, with the S&P gaining 1.3% and the Dow Jones Industrials down 0.7%. International markets appear benign, with a gain through March of just under 0.2%. But averages don't tell the full story, as investors have confronted a spike in volatility far greater than recent years. The market is facing serious headwinds, including economic stress in emerging markets, severe winter weather here at home, and a crisis in Ukraine that reawakened Cold War relations for the US and Russia. The biggest decline for the S&P this quarter came when Russia annexed Crimea, and the S&P dropped more than seven percent.

So how did these markets recover, touching historic new highs? The resilience in the market reflects underlying economic fundamentals. Despite disruptive sector rotation, the market is embracing a resumption of global growth as the economy shakes off persistent challenges. China's slowdown and Putin's aggression provide uncertainty the market abhors, but the impact of bad weather has faded with the arrival of spring, and investors know that much of the growth lost from Q1 will be made up in Q2.

We have already seen signs of acceleration, as US companies added more jobs and factory orders rose solidly in February, and the March employment report showed steady improvement, as the private sector added 192,000 jobs and the participation rate ticked up for the second consecutive month. Labor force growth is particularly good news. The household survey shows the labor force grew by 503,000 in March, a strong number. The Commerce Department released a report showing new orders for manufactured goods rose by 1.6%, the largest increase since last September. Shipments of new orders increased 0.9% in February, again, the largest rise we've seen since last July. Additionally, the Institute for Supply Management said that its index of manufacturing activity increased for the second month in a row, up to 53.7 in March. Any reading above 50 indicates growth.

Meriden Retirement Funds

The Meriden pension funds closed the third fiscal quarter with a gain of 1.9%, powered by international and alternative investments. Domestic equity managers provided mixed results, reflecting the broader market index performances. Bond managers posted positive returns, as the consensus forecast of rising interest rates proved to be premature. Equity allocation remains at 69%, with fixed income at 17%, and alternative strategies accounting for 14%. The OPEB Health Trust gained 1.2% during the quarter, but continues to outperform the pension accounts for the current fiscal year: 12.6% through March, compared to 10.9% for the City Employees fund and 11.5% for the combined Police/Fire pension. April is off to a rocky start, with pension assets through last Friday at $249.4 million, and the Health Trust at $17.5 mm.

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