City of Meriden, CT

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

Pension Fund Update July 12, 2016

Meriden Retirement Board

Tuesday - July 12, 2016

Overview

Up next: Italy confronts a banking collapse and national referendum. We are moving through the angry summer of 2016 with new questions about the impact of globalization, approaching political upheavals at home and the UK/EU divorce negotiations abroad. Amid struggling world economies, voters historically turn inward to defend personal and national well-being. Nationalism fueled the June 23rd Brexit vote and still energizes both the Bernie Sanders and Donald Trump campaigns. However well-intentioned, foreign interventions seem unappealing. Unbalanced trade agreements and indifferent immigration policies are blamed for stagnant wages, income inequality, and devolving opportunity. Shared prosperity among nations or communities seems improbable this year, as global GDP slows again and central bankers approach a second decade searching for the elusive formula to promote stability and growth.

Quarterly earnings are rolling in with muted expectations and a Brexit cloud overhead. Over the past three months, analysts have cut their earnings projections for the second quarter from a 2.8% to a 5.6% decline. According to Pacific Global, this would mark a fifth consecutive quarter of negative growth. While interest rates remain low, US bonds are appealing compared to negative rates overseas. The specter of bail-in obligations weighs heavily on the EU, with depositors potentially penalized by their own bankers to avoid government bail-outs using taxpayer funds. The EAFE index is down 7.8% YTD for 2016.

Meriden Retirement Fund

Much has been written of the $2.1 trillion of global market value lost the day after Great Britain's vote to leave the European Union, and a 12% plunge for US stocks in just two days. The domestic loss has been recovered, but the volatility of the final week of the fiscal year was costly for the Meriden retirement fund and other diversified pensions. Global portfolios closed June down as much as 5%, but the volatility had an upside for managed futures and fixed income. Further damage was prevented by earlier reductions to international stocks, while the Steben FPF Fund posted a 6.2% gain and Campbell advanced by 3.8%. The quarter closed with a modest 0.7% gain, following returns of 3.6% and 0.2% in the second and third quarters of the fiscal year. But last summer's 6.5% decline was still too much to overcome, and the composite retirement fund will close FY'16 down more than two percent when audited returns are posted.

Asset allocation remains defensive and domestic, after limiting overseas exposure this year from a recommended 20% level to just 8%. Currency and global investments are included in the overweighting to hedge funds and managed futures, where opportunity for profit exists in either rising or declining markets. The combined pension portfolios currently hold 57% stocks, 22% bonds, and 21% alternatives, while the OPEB Healthcare fund has 73% in equities, 19% fixed income, and 8% in alternative strategies. More aggressive in structure, the OPEB portfolio performs with amplified volatility in addressing longer term healthcare support for system participants.