City of Meriden, CT

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

Pension Fund Update October 11, 2016

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Like most of America, Wall Street is struggling with the political dynamite of Campaign 2016, foregoing traditional economic prognostication while the candidates stumble toward November. Current portfolio models overwhelmingly suggest a status-quo election night, although pollsters and analysts remain chastened by their inaccurate forecasts on the Brexit vote back in June.

Setting the political follies aside, the real economy has returned to center stage. Quarterly earnings season began this week with expectations for a sixth consecutive decline in S&P profits. Energy companies are likely to lead the downturn, although forward guidance indicates double-digit growth anticipated in that sector for 2017. The unemployment report for September, released last week, clarified little. It showed lackluster hiring gains, increased but unspectacular hourly wage growth, and the movement of more sidelined workers back into the job market. While September marked the 72nd month of positive job creation, the *pace* of hiring has slowed dramatically. Dropping from near 250k at the end of last year, the trend in job creation cooled to around 200k in the early months of 2016 before falling below 170k as of late. Month-to-month-volatility aside, U.S. employment has noticeably lost – not gained – momentum since the Federal Reserve first raised interest rates last December.

Meriden Retirement Fund

The Meriden retirement funds closed the first fiscal quarter with a 2.5% gain, as the composite Police/Fire and City Employees plans finished September flat – in line with equity indexes. The OPEB Healthcare fund outperformed the pensions, gaining a half-point in September and up 3.6% for the quarter. October began with a fractional loss as softer returns reflected a range-bound market environment. A notable 4.6% performance was posted in September in the Dorsey-Wright Relative Strength portfolio, compared to gains less than one percent from other international managers and the EAFE index. The asset allocation for the combined retirement portfolio remains expectant, with 47% in domestic stocks, 10% in foreign equities, 19% in alternative investments, 21% in corporate and government bonds, and 3% in cash equivalent (money market) funds.

Rose Dean, a senior associate with Wilshire Consulting, recently told the Financial Times that public, defined-benefit pension plans continue to struggle to meet their obligations within a treacherously low interest rate environment by increasing their credit-risk profiles and by reducing liquidity. Management fees are softening, providing an additional path toward better net returns. For Meriden, opportunities in late-stage venture capital and middle-market private equity are under review, as the Board's platform of alternative strategies matures. Risk-adjusted debt partnerships may also be considered as potential proxies for traditional fixed income in a rising interest rate market.