CITY OF MERIDEN

Pension Fund Update, July 10, 2012

Printer-Friendly Version

Meriden Retirement Board

Tuesday – July 10, 2012

-

-

Overview

The closing days of June provided direction if not complete clarity for two of the most significant obstacles to economic recovery, as the US Supreme Court upheld much of President Obama's national healthcare program and Germany finally relented to a more global assurance of national debts within the European Union. The potential loss of sales into the Eurozone, regulatory uncertainty for employers, and a looming fiscal cliff of automatic spending cuts and increasing tax rates have combined to restrain corporate growth over the past few months, resulting in a negative quarter for equities – despite a June recovery. Hoping to promote bank lending and employment growth, the Federal Reserve Board extended its policy of monetary stimulus, but artificially low interest rates are leaving investors with little opportunity for inflation-adjusted yields. Last month's unemployment report confirmed a third consecutive month in which US job growth trailed demographic growth, resulting in continued high unemployment rates and a larger number of jobless Americans.

Earnings reports for the second quarter began last night with Alcoa, and analysts are forecasting a modest decline in the year-over-year comparisons for the S&P 500. Investors will be carefully reading the corporate guidance for the second half of the year, with S&P Capital IQ suggesting potential opportunity within three sectors: information technology, industrials, and consumer staples. Stifel market strategist Barry Bannister remains more optimistic, projecting double-digit equity returns in 2H12 as the European Central Bank survives its crisis, China acts to stimulate its domestic consumption, and US interest rates remain suppressed. Bannister favors tech, health-tech, and media/telecom, while expecting a bounce in commodity stocks.

Meriden Retirement Funds

The Meriden Retirement composite closed the fiscal year at $229.81 million, having distributed $7.34 million in support of participant benefits during the fiscal year. Preliminary, unaudited performance calculations show the fund declined by 3.6% during the fiscal year, with losses in the first and fourth quarters, and gains posted in the second and third. A correction in the price of gold, which had powered significant out-performance over the past two years, combined with other international challenges to offset portfolio gains in domestic growth stocks and fixed income, most notably the accounts invested in US Treasury securities. Separately, the Health Trust account closed the fiscal year with a fractional gain. Periodic contributions to that OPEB fund provided an opportunity for more tactically-driven portfolio allocation during the course of the year. The OPEB closed the fiscal year at $8.67 million, the City Employees fund at $128.21 million, and the combined Police & Fire pensions with $101.59 million. Asset allocation in the Police/Fire fund includes 61% exposure to equities and ETFs (including gold) while the City Employees remains at 57%. Managed futures funds provided a strong recovery in June, following the Board's allocation of additional funds to the AIS strategy.

With the beginning of FY13, we recommend a rebalancing of capital allocations among portfolio managers to increase exposure to core value and small-cap equities, harvest a portion of imbedded gains in gold, redirect a commitment to non-traded equity holdings, and address the management of high yield and international value portfolios. We also would ask the Board for authorization to reinvest a portion of the present managed futures exposure upon achievement of established goals, to capitalize on sector volatility.

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