CITY OF MERIDEN

Pension Fund Update July 2010

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Meriden Retirement Board

Tuesday – July 13, 2010

Overview

The second quarter ended with a thud, as equity markets posted double-digit losses and forecasts of fiscal gloom darkened the summer horizon.~ For the past four months, economic data has been inching forward, yet many analysts have grown increasingly cautious about investing in a climate of rising public debt, higher taxes, slowing retail sales, stumbling home sales, deleveraged bank lending, and dismal job prospects.~ Not exactly a happy picture.~ While most economists will say that a Double Dip recession is unlikely, the stock market closed June with plummeting expectations.~ Oh sure, corporate earnings may be improving, but the forecasts are as murky as a deepwater swim in the Gulf of Mexico.~ Ill-tempered market historians welcomed July with ominous reflections on the poor track record of equities in years in which indexes decline during the first six months.~ Despite the Fed's latest assurance that interest rates will remain at extremely low levels for the foreseeable future, political and economic confidence has turned from cautious to negative: "Nothing is working, and no one knows what to do."~ Large institutions and most corporations are sitting on mountains of cash right now, as Alan Greenspan noted, supervising a cache of nearly $3 trillion awaiting direction toward capital expenditure and investments.

We are encouraged by analyst Barry Bannister's projection of a new peak of 1250 in the S&P 500 Index before the end of the year.~ The index closed Monday after a five-day advance at 1078.75.~ We believe many well-documented concerns are now priced into the market and will be swept aside by electoral reality in the coming months, providing temporary clarity on taxes, energy policy, and perhaps even healthcare.~~~~~~~~

Meriden Retirement Funds

The Meriden retirement fund withstood the challenge of the June downdraft, posting a loss of less than 2.5% during the final quarter of the fiscal year, compared to declines of 10% for the Dow Industrials and 12% for the S&P.~ International stocks fell 17%.~ Preliminary calculations indicate Meriden is likely to close the fiscal year with a 14% gain, reflecting the allocation changes made last winter.~ As of Friday, the City Employees fund held 44% in equities, 45% in fixed income and cash equivalents, and 11% in alternative investments, such as managed futures and non-traded equity REITs.~ The Police/Fire pension currently maintains an allocation of 44-43-13.~ Of the $215.7 million total in the funds, approximately $77 million is managed by fixed income advisors, $39 million by large-cap equity managers, $27 million by a precious metals advisor, $17 million by managers who specialize in international investments, and $16 million by mid-cap managers.~ Treasury securities and alternative investments comprise the remainder of the funds.~~~

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