CITY OF MERIDEN

Pension Fund Update Sept. 2010

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Meriden Retirement Board
Tuesday – September 14, 2010

Overview

The 2010 midterm election campaign shifted into high gear over the Labor Day weekend, as retail politics elbowed its way onto the beltway stage. By wisdom or whimsy, campaigning politicians of all stripes have adjusted their rhetoric, sounding more like Main Street than K Street. There is a constant truth in the political universe: public opinion matters during election season, measured not only on Election Day, but in scores of campaign polls conducted by the hopeful, the hostile, and the instant historians who populate the press room. Perceptions matter in politics, and no time is more important than the reelection cycle. Even if your name is not on the ballot, officially.

Investment markets anticipate. After struggling through a range-bound summer, investors and the high-volume traders have turned a watchful eye to the polling trends and begun positioning for any potential change in the taxation and regulation environment. This year's earliest October Surprise may have arrived in early September, as President Obama launched a series of pro-growth initiatives and embraced an extension of the Bush tax cuts for all but the top brackets of taxpayers. By the end of the week, he also acknowledged that perhaps "bending the cost curve" for healthcare was not going to be as easy as he thought. CNBC's Jim Cramer made note of the new "Presidential Indicator" for the stock market, as the Dow actually closed higher following a presidential news conference, reversing a two-year trend.

Meriden Retirement Funds

Meriden's combined investment funds totaled $220.8 million as of last Friday, a gain of more than $5 million in early September, and a fiscal year gain of more than 4.1% thus far. Bond prices have softened, and international markets have jumped. Gold briefly touched a new high, and emerging market growth trends supported stronger commodity prices. The asset allocation for the combined portfolios remains underweighted in stocks and overweighted in bonds: 41.7% in global non-gold equities, 33% in fixed income, 13% in gold/mining stocks, and 12.3% in alternatives.

As discussed at the August meeting, we believe the Board should consider rebalancing the equity portfolio to increase exposure to holdings in non-traditional securities, including real estate, energy MLPs, and managed futures. We favor increasing the emphasis on gold, global commodities, and well-capitalized, dividend paying domestic stocks. With a significant reversal in the yield on the 10-year Treasury, we believe risk is rising on fixed income securities.

Also, a reminder that the Board's investment sub-committee will meet at 4:30 pm on Tuesday, September 28th, to hear from current and potential portfolio advisors regarding market strategies.

Patrick Sheehan
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DJIA: 10,526.49
September 14, 2010

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