CITY OF MERIDEN

Pension Fund Update, December 13, 2011

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Meriden Retirement Board

Tuesday – December 13, 2011

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Overview

If you went away or hid under your blanket for the month of November, you might have wondered about the boring US equity markets, as the S&P 500 closed the month with a fractional loss of -0.5%. No big deal, right? In reality, November's markets were sharply lower and extremely volatile, with the index down -7.5% by the day after Thanksgiving. But in the final three trading days of the month, nearly all the losses were recovered – for those investors who stood firm. This is not a pleasant market for the faint of heart.

The debt crisis facing European banks has dominated market activity in recent months, providing urgency to a Eurozone agreement on deficit reduction strategies among the member-nations. The underlying problem remains overspending by governments, who borrow from their over-leveraged banks by selling them bonds. In the early morning hours last Friday, the EU finance ministers celebrated a negotiated resolution which averted – for the moment – Germany's insistence that sovereign budgets meet EU debt standards to qualify for support for their banks and markets. The agreement requires member-nations to amend their constitutions, committing to fiscal controls and austerity. Britain declined, hoping to defend its favored place as a banking center and unlikely to need assistance from the continent.

The downside of EU fiscal discipline could be a recession that spills over to the US economy. Forecasts for slower growth among global corporations include an expectation of reduced government spending and adjusted public pensions. Robust Q3 earnings (up 17.9% from 2010) are being offset in the market by declining earnings projections for Q4 and 2012. Despite high levels of corporate cash and surprisingly strong holiday sales, expectations are cautious – providing an upside opportunity in the months ahead.

Meriden Retirement Funds

As of the November 30th close, the Meriden City Employees Retirement fund totaled $131.4 million, and the combined Police/Fire Retirement funds were valued at $104.4 million. The separate OPEB account balance was $6.9 million.

Strong performance in October and November's recovery bounce pulled the Meriden pension composite back to a loss of -3.0% FYTD, a significant recovery from our first quarter decline. Meriden continues to outperform its peers over recent and extended periods. The State Treasurer's Municipal Employees Retirement Fund reported a loss of -8.3% in the September 30th quarter, and posted annualized returns for one, three, and five-year periods of +0.7%, +3.9%, and +2.2%. By comparison, the Meriden City Employees fund fell -6.6% for the quarter, with a trailing one-year return of +3.7%, three-year +6.6%, and five year +5.1%. The Police/Fire fund was a fraction better: down -6.5% for the quarter, and +3.9%, +6.6%, and +5.2% for the 1, 3, and 5-year annualized returns. The BNY Mellon Master Trust Universe reported the median returns for large public plans during the quarter was -8.8%, with a five-year median return of +2.2%.

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