CITY OF MERIDEN

Pension Fund Update June 10, 2014

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Meriden Retirement Board

Tuesday - June 10, 2014

Overview

Despite the Fed's domestic taper, new stimulus initiatives in Europe and Japan continue to feed liquidity and help lift equity prices worldwide. US-based multinationals gain from consumption overseas, adding to earnings not only from increased sales, but from favorable currency exchange as well. Last month's revision to negative Q1 GDP set the stage for accelerating growth through the summer, and arrived alongside modest job growth and a surprisingly strong producer price report that indicates inflationary pressure moving into the economy. PPI for final demand rose 0.6% in April, triple the consensus forecast and the sixth consecutive month of higher prices for finished goods. As Stifel strategist Barry Bannister notes, "Higher PPI usually finds its way to CPI (consumer prices) with a small lag...and Capex usually follows." Capex is capital expenditure, the commitment of sidelined investment capital required to expand businesses and stimulate job growth. Clearly long-delayed, but a welcome forecast nonetheless.

The Producer Price Index for May is scheduled to be released this Friday, and the Consumer Price Index on Tuesday, June 17. These reports will impact inflation forecasts for the remainder of the year, and may be as significant to the markets as the closely-watched monthly employment reports.

Publicly-traded markets are inclined to discount expectations, however, and Bannister believes that 2014 earnings growth of 7% for the S&P will be offset by a compression of trading multiples, leaving the broad market flat for the year, and range-bound through the fall. Sector-selection becomes critical to investor performance, with expectations favoring basic materials, energy, industrials, and technology as larger companies address replacement cycles and seek market expansion.

Meriden Retirement Funds

The composite Meriden retirement fund gained 0.8% in May, lifting the fiscal year performance to 12.1% while the OPEB Health fund advanced 1.4% for the month, and 13.1% FYTD. During the month, additional funds were allocated to the Warburg Pincus and Carlyle private equity funds and the EJF Debt

Opportunities accounts, and capital gains taken in Franklin's international portfolios and the domestic equity funds of Neuberger Berman and Armstrong Shaw. Fixed income, managed by Madison Advisors and Capstone, continued to provide a welcome, if unexpected valuation lift, as interest rates remain below forecasts and bond values rise. Asset allocation, adjusted for mid-year capital markets assumptions, shows the Meriden pension composite with 64% in traded equities, 22% in fixed income, and 14% in alternative investments.

Buoyed by favorable employment trends and EU activism, markets have provided encouraging gains for June, thus far, with the Meriden accounts advancing an additional 1.2% through last Friday. The OPEB had gained 14.9% FYTD by the end of the week. Large cap, dividend-paying equities continue to lead the markets as midcap momentum stocks have faded off their first quarter gains.

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