CITY OF MERIDEN

Pension Fund Update, July 9, 2013

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Meriden Retirement Board

Tuesday - July 9, 2013

Overview

Dramatic market changes over the past six weeks are widely attributed to the carefully scripted May 22nd testimony of Federal Reserve Board Chairman Ben Bernanke. In acknowledging the inevitable move to reduce ("taper") the Fed's unprecedented level of intervention, Bernanke spiked interest rates and drove down the value of fixed-income securities, normally the refuge of risk-averse investors. Reflecting on the damage done to normally defensive portfolios, our colleague Bernie Kavanagh decided to quote Motown, rather than Washington: "Nowhere to run to, nowhere to hide." The classic 1965 hit by Martha and the Vandellas spoke of heartache and mistrust, and indeed Wall Street fell victim to both.

Within a few weeks, the Dow Jones Industrials traded-off nearly a thousand points and the S&P fell 5% before staging a rotational recovery. More importantly, interest rates soared higher, with the yield on the benchmark 10-year Treasury bond ballooning from 1.6% at the beginning of May to over 2.7% early in July. The move effectively raised the cost of borrowing money by more than 68%, and slashed the value of fixed income portfolios. The bond market posted its worst month in nearly five years. Perhaps, as Martha Reeves warned - "it's the heartaches that I know will come" (from the Fed exit process) that caused near-term dislocations across asset classes and increased market volatility. With rates anticipating normalization, traders began steering away from their prior attraction to higher-paying dividend-stocks and back toward financials and technology, while maintaining an appearance of index stability.

Last week's unemployment report cheered the markets, as it represents a continuation of slow but steady growth. And that is good news. But Table A-15, buried twenty-six pages into the monthly report, included the ugly truth that the "real" unemployment number (U-6: unemployed...plus those employed part time for economic reasons) remains at 14.3%. The BLS reports over 2.6 million people "could only find part time work," while more than 7-million people are reported as holding multiple jobs. Without more robust growth in fulltime employment, the economy remains vulnerable to shocks from geopolitical events abroad or domestic regulation.

Meriden Retirement Funds

The equity managers for the Meriden Retirement funds closed the fiscal year with an estimated 16% gain, offsetting significant losses in gold/miners, and relatively flat results (~1%) from both fixed income and managed futures. Asset reallocation and market performance raised stock exposure

(ex-gold) from 47% to 60% in the composite portfolio, while reducing bonds from 24% to 17%, and gold from 12% to 4.4%. Within alternatives, the allocation shift added two percent to the prior year's 16% investment, as private equity funds have joined REITs and managed futures for non-correlated, opportunistic exposure. During FY13, the pension funds returned nearly $8.4 million to the City for distribution to plan beneficiaries. The Police/Fire transfers ($4.4 million) surpassed those from the City Employees fund for the first time in Meriden's pension history, representing a 4.6% draw compared to 3.1% for the municipal employees.

Rising rates and Fed policy adjustments provide additional private equity and managed debt opportunities for investors, in concurrence with the Board's June allocation adjustments.

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