City of Meriden, CT

Meriden City Hall, 142 East Main Street, Meriden, CT 06450

Pension Fund Update February 10, 2015

Meriden Retirement Board
Tuesday –February 10, 2015

Overview

The Labor Department's 5.7% monthly unemployment rate "amounts to a big lie," according to the head of Gallup, the nation's leading public opinion company. But steady advances in hiring and a long-awaited increase in average weekly wages are providing added fuel for possible Federal Reserve action to raise interest rates later this year. While millions of long-term unemployed and "depressingly underemployed" Americans remain mired in the Great Recession, as the Gallup CEO asserts, it's also true that more than one million people have been added to the US labor force in the past three months. The new hiring is prompting a jump in consumer confidence, as oil prices also appear to be stabilizing following 2014's dramatic and unpredicted collapse. The anticipation of rising rates also is attracting renewed investor support for the financial sector, mired in a near-zero interest environment since 2008.

While the groundhog offered a cold shoulder, February brought warm smiles to Wall Street with equity markets rebounding from January's sharp downturn. As quantitative easing spreads through China, Japan, and the European Union, global investors continue to favor US markets. Major US indexes fell more than 3% during January, reminding us of last year's dismal start (when the Dow Jones Industrials dropped more than 5%). Markets generally follow earnings projections, however, and energy sector profit downgrades may be offset by favorable 2015 comparisons in manufacturing, retailing, and transportation.

Meriden Retirement Funds

The City Employees and Police/Fire pension funds have outperformed the major indexes in 2015, falling fractionally in January but gaining 1.3% during the first week of February. Strong performance in gold and other alternatives helped offset January's equity losses, while an international snapback assisted February's early advance. Fiscal year 2015 remains just marginally higher for the retirement accounts, while the Health Trust has gained more than 4%. Portfolio managers have been holding higher than usual cash positions, hoping to take strategic advantage of rising volatility and increasingly frequent triple-digit market swings.

The OPEB Health Trust closed last week at $22.6 million, while the pension funds totaled $250.7 million. Publically-traded domestic and international equities represent 61% of the retirement portfolios, with 19% in private equity partnerships, managed futures, long/short hedge funds, and other alternative investments. The remaining 20% is committed to investment grade fixed income and money-market funds. The OPEB fund carries 78% in exchange-traded equity funds, 11% in fixed-income securities, and another 11% in alternatives. Managers are over-weighting domestic equity and adjusting international exposure for global real estate, industrial, and energy opportunities.