CITY OF MERIDEN

Pension Fund Update September 2012

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Meriden Retirement Board

Tuesday – September 11, 2012

Overview

Stimulus expectation is driving the market. As the Federal Reserve decides how to pursue additional stimulus, it will not likely address an insufficiency of previous efforts, but might revive debate about the Fed's mission. Following a series of financial panics, the Fed was created in 1913 to stabilize the nation's monetary system by providing needed liquidity with a ready reserve of currency, allowing credit to expand and contract seasonally within the US economy. Monetary discipline remained the hallmark of the central bank until thirty-five years ago, when the Federal Reserve Reform Act of 1977 established what is now referred to as the "*dual mandate*," requiring the Fed to promote not only price stability, but maximum employment as well. Notably, the Reform Act had a third goal that's not often mentioned: "moderate long-term interest rates," a polite way to suggest containing inflation, but adopted when the Fed discount rate was about to soar from 6.5% to 14%. Today that discount rate is below 1% and the Fed no longer worries about reducing inflation, but rather promoting it. And while unemployment remains stubbornly high, Chairman Ben Bernanke recently credited accommodative Fed policies with helping to boost stock prices back to pre-recession levels.

We remain optimistic about US equities in the coming months. Back in June, we reported that Stifel Nicolaus market strategist Barry Bannister was projecting double-digit gains by the end of the year, setting a target of 1600 for the S&P 500 index. His forecast seemed lonely at the time, especially following a drop of 6.3% in May, with the index hovering at 1300 and the job market facing trend reversals that persist today. But by last Friday, the index closed at 1438 and Bannister reconfirmed his target based on his expectation of further Fed intervention in US markets, a self-preservation instinct within the European Union, and stimulus in China. While mutual fund flows show many investors remain sidelined, Bannister's bullish equity forecast is gaining support, with analysts at Credit Suisse recently adjusting their 2012 target from 1425 to 1500.

Meriden Retirement Funds

The Meriden pension funds continue to perform well in the new fiscal year, closing last week with a composite gain of 6.6% FYTD. The OPEB Healthcare Trust account is up 5.2%. Equities have done well, but leadership came from alternative investments in the retirement accounts. Orrell Capital's gold accounts are up 12.8% and the Board-directed accounts have gained 15.2% since June 30. In August, the AIS managed futures fund posted a third consecutive month of outstanding performance and has rebounded to a YTD 18% gain in 2012. Through last week, the retirement fund accounts totaled $243.5 million, up $15.1 million thus far in FY13. The City Employees fund stands at $135.8 million, and the Police/Fire accounts total $107.7 million. The Healthcare Trust Fund value is $10.3 million, as the OPEB has joined with the retirement plans in executing an initial investment into the Carlyle Equity Opportunity Fund.

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