CITY OF MERIDEN

Pension Fund Update July 8, 2014

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Meriden Retirement Board

Tuesday – July 8, 2014

Overview

Five years off the bottom, it's apparently time to celebrate. The US Labor Department reports 288,000 jobs were added during June, with unemployment down to 6.1%. The markets and the media just loved it. With 92-million Americans over the age of 16 either unemployed or not looking for work, what could possibly go wrong? "Party on, Wayne!" "Party on, Garth." (Wayne's World – 1992).

Thinly-traded Wall Street launched some valuation fireworks for the Independence Day holiday, lifting the Dow Jones Industrials over 17,000 for the first time and toasting the zero-interest-rate addicts at the Federal Reserve. Forecasters who six months ago predicted 3.5% GDP growth for 2014 are scrambling to recalculate after learning the economy actually shrank by 2.9% during the first quarter, and now suggest a surge of activity coming this fall. But caution is warranted – despite our long-anticipated acceleration. Remember the "Recovery Summer?" We read about it in the New York Times, so it must be true. "Construction is set to explode this summer." (June 18, 2010.)

The US economy is healing, but not yet healthy. Corporate earnings should remain strong into the fall, as input and labor costs are down and money for creditworthy borrowers is cheap. With interest rates low, stocks remain the focus of anticipated growth and current income. But there is a problem that cannot be ignored: 70% of the US economy relies directly on consumer spending. And last week's labor report included a troubling and less celebrated fact that may impact spending confidence: fulltime employment in June actually dropped more than 500,000 while part time employment – including public-sector summertime hiring – rose by 799,000. In today's environment, any reduction in GDP growth forecasts could well trigger a correction that seriously threatens the stock market's extraordinary performance of recent years. There may be a profitable road ahead, but beware the potholes of the next few miles.

Meriden Retirement Funds

The Meriden Police/Fire pension funds closed the 2014 fiscal year with a gain over 15%, according to preliminary performance calculations, while the City Employees gained more than 14% and the OPEB Health Trust, nearly 16%. The retirement fund composite gained $24.1 million to $255.6 million during the year, while the plans generated $8.9 million in benefit payments for retirees and their families.

June's composite gain of 2.4% lifted the pension fund's quarterly return to 3.2% and the calendar year-to-date to 5.2% through June 30. Domestic and international value managers provided the strongest equity performances, although gold topped the list with a double-digit June. Several of the private equity funds drew capital for new investments, while cautionary cash levels were being raised in most of the publicly-traded portfolios. The fiscal year closed with more than $10 million (4.2%) held in cash by managers, as opportunity funds. Equity assets represented 63.2% of the fund with 17.1% in bonds, and 15.5% in alternative investment securities. FY'15 began well, with a gain of $1.2 million in the first week of July.

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