City of Meriden, CT

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

Pension Fund Update January 10, 2017

Meriden Retirement Board
Tuesday – January 10, 2017

One year ago, US equity markets were collapsing, with the S&P 500 and Dow Jones Industrials posting their most disastrous first week on record, prefacing the worst opening six weeks in stock market history. The Federal Reserve Board had raised short-term interest rates in December, 2015, by just one-quarter of a percent, but also signaled a series of further increases in the months ahead. Fast forward twelve months, and equity markets closed 2016 with across-the-board gains, and just one additional rate hike at the very end of the year. Pollsters and expert forecasts last year missed or misinterpreted Britain's vote to exit the European Union, the nomination and election of Donald Trump, and the market's reaction to both.

While market forecasting remains an inexact science, we build portfolio allocation models to the realities of labor costs, trade policies, retail sales, and government spending – among the myriad reports of supply and demand that impact the value of investments. Uncertainty surrounds the policy initiatives of the new Trump administration, but Stifel strategist Barry Bannister believes industrial and financial stocks will lead markets higher this year, with the US economy avoiding recession until 2018. Analysts at Neuberger Berman more boldly declare: "a more business-friendly environment characterized by lower taxes, loosened regulations and robust fiscal spending could provide a tailwind for corporate earnings and stock markets" in 2017. But Lindsey Piegza, Stifel's chief economist, warns that continuing strength of the US dollar "will make US-made goods more expensive and less attractive to foreign buyers." Forecasters generally agree broad-based tax reform and reduced regulation could push equity markets forward, but only if political agreement can be reached quickly and without major trade disruptions. Skeptics warn that stocks have posted eight years of gains fueled by the stimulation of artificially low rates, but it's worth noting that no major investment firm is forecasting negative returns for 2017.

Meriden Retirement Fund

Strength in domestic equities lifted Meriden's composite pension performance during the second fiscal quarter, although market-values of fixed income holdings fell sharply after a post-election spike in interest rates, and a reactive sell-off in international markets further muted composite returns. The City Employees Retirement fund closed the calendar year at $133.2 million, while the combined Police/Fire pension fund stood at $100 million. The OPEB Healthcare Trust closed 2016 with $28.9 million. January has carried forward momentum in all three funds. Asset allocation for the retirement funds stands at 46% in domestic equities, 12% in international stocks, 20% in alternative strategies, and 22% in fixed/cash.

The Board tonight considers a reaffirmation of the Investment Policy Statement, incorporating the recent amendment of credit quality requirements for fixed income managers. We are also pleased to report that the review we began last summer of custodial and investment management fees, further screened by cross-ownership, has revealed the opportunity for significant expense reduction in the coming year. With consolidation of some overlapping equity management, and by negotiating reduced trade processing and portfolio advisory fees, the Board can achieve savings of more than 14% from previous fee levels.