CITY OF MERIDEN

Pension Fund Update, June 12. 2012

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Meriden Retirement Board

Tuesday – June 12, 2012

Overview

"España no es Uganda." A widely-publicized text message from the Spanish Prime Minister to his Finance Minister last week underscored the hardball negotiations of the Eurodebt Crisis, as Spain demanded bailout support to avert default, insisting on the respect of its continental neighbors. Investment markets were notably unimpressed with a rescue plan that layers new debt on old debt, while reducing the ability of a fourth Eurozone nation to service its past sovereign obligations. The EU weekend agreement to provide a backstop for Spanish debt fell short of a proposed blanket guarantee, as Eurozone finance leaders acknowledge that the problems of Ireland, Greece, Portugal, and now Spain will likely surface soon in Italy and perhaps France. The northern European nations, notably Germany, continue to resist shifting national debts to the entire federation, defending their own treasuries from the profligate policies of their brethren. Without independent currencies and the authority to print their way out of debt, the Greeks and Spaniards may indeed be looking more like the Third World nations they wish to deny.

US equity markets enter the summer months weighed down not only by an expectation of European recession that impacts our exports, but widespread domestic uncertainty. Regulatory and fiscal issues seem likely to dominate the election cycle, and the Supreme Court will release a decision on the Affordable Care Act soon, providing more clarity for employers regarding their future health care obligations. Assuming no preemptive agreement between the Congress and the White House, a looming fiscal cliff of significantly higher taxes and mandated spending reductions will fuel a lame duck session in Q4. Stifel Nicolaus market strategist Barry Bannister forecasts that US markets will perform favorably during the second half of the year, as Europe will eventually respond to “self-preservation instincts” and guarantee debt to avert the collapse of the Euro, while the US Federal Reserve will continue to suppress interest rates, fueling GDP growth and the S&P 500.

Meriden Retirement Funds

On the night of May 31st, Reuters News Service called May a “dire month,” posting the worst showing for US equities in two years, with the S&P losing 6.3% and the Nasdaq down 7.2%. Before the ink had dried, the Labor Department issued its monthly unemployment report for May, and markets plunged an additional 2% on the first of June. Meriden’s Retirement funds fell 5.2% in May, and as of last Friday, the composite fund is off 4.6% for the fiscal year. The City Employees fund totaled $127.1 million, and the Police/Fire pensions stood at $100.8 million. The separately-managed OPEB Trust lost 4.9% during May, and is down 1.2% FYTD.

The Investment Sub-Committee met with Capstone Asset Management last month, and agreed to address asset allocation issues regarding the Theta covered-call discipline. Board action is recommended also regarding the pre-funding of the US Treasury-based accounts that provide monthly benefit payments.

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