CITY OF MERIDEN

Pension Fund Update August 9, 2011

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Meriden Retirement Board
Tuesday – August 9, 2011

Overview

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In the satirical and Oscar-nominated song "Blame Canada," the crew from South Park concludes: "We must blame them and cause a fuss, before somebody thinks of blaming us!"~ After forging an interim agreement last week that would raise the total US national debt to $21 trillion over the next decade, the Republicans blamed the Democrats, the Democrats blamed the Tea Party, President Obama blamed the Arab Spring and Japanese tsunami, and economist Paul Krugman blamed Ben Bernanke.~ Stocks plunged, and Wall Street analysts blamed Europe.~ Then late Friday, the rating agency Standard & Poor's delivered on its April warning by downgrading US Treasury debt from its pristine AAA rating to AA+ and even tacked on a "negative outlook," suggesting a further downgrade is possible.~

Simply put, S&P said the debt limit agreement – which failed to address either entitlements or tax revenues – "falls short of what, in our view, would be necessary," adding that it is "pessimistic about the capacity of Congress and the administration to stabilize the government's debt dynamics anytime soon."~ The markets reacted aggressively as traders sold equities and bought gold and bonds, including those Treasuries that had just been downgraded.~ The ratings agency's downgrade may now result in an investigation of S&P itself, which is suspected of misunderstanding the government's intention to address the debt imbalance by a reasonable political compromise about how much more to borrow over the next ten years.

Meriden Retirement Funds

The sell-off in equities began in late July, after President Obama and Speaker John Boehner went on television and hardened their positions on appropriate debt limits, tax revenues, and projected increases in federal spending.~ The pending Meriden retirement fund reallocations were frozen, awaiting resolution of the debt ceiling.~ Just one-third of the designated $28.6 million was distributed to portfolio managers following the debt agreement, limiting further losses in the fund.~ However, the stock sell-off between Thursday and Monday caused significant damage, and FY12 has begun with a decline of 4.3% in account valuations.~ The funds remain cautiously positioned approaching the remainder of the first fiscal quarter.

There is much better news from the closing of the prior fiscal year, FY11.~ The Meriden retirement funds posted excellent performance once again, maintaining their top decile rankings over the past five years.~ The City Employees achieved a 20.19% annual gain for FY11, with a 5-year annualized return of 6.65%. The Police/Fire funds did a bit better, with 20.23% for the year, and 5-year returns of 6.70%.~ Meriden's performance during the past fiscal year supported benefit withdrawals of $10,194,000 from the combined funds, an elevated distribution rate of 4.7%.~ Outstanding performances during the fiscal year were posted by international growth manager Wentworth Hauser, large-cap growth manager Louis Navellier, and the accounts containing managed futures funds – all of which topped 30% returns.~ Just below that performance level were the international value accounts managed by Franklin, and the core value accounts managed by Armstrong Shaw and Neuberger Berman.

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