CITY OF MERIDEN

Pension Fund Update May 14, 2013

Printer-Friendly Version

Meriden Retirement Board

Tuesday – May 14, 2013

Overview

The US economy continues its slow recovery. Improvements in consumer confidence and housing are driving US equities to new record high levels, reflecting strong productivity highlighted in first quarter reports. Business continues to get more from less, at least on a relative basis. With 90% of the S&P 500 posting Q1 results, two-thirds of the firms have exceeded their consensus expectations for Earnings, while fewer than half have beaten their top-line Revenue projections. Overall, S&P earnings are showing a gain of 5.3% over last year – steady progress while the labor market slowly heals.

Curiously, domestic business is outperforming the much-celebrated global marketplace. According to a study by the Thomson-Reuters news service, 150 of the 500 largest publicly-traded companies derive nearly all their revenue (over 95%) from inside US borders. The stocks of those US-focused companies are rising faster than the S&P benchmark, not only this year but over the past one- and two-year periods as well. These domestic dynamos are led by homebuilding companies, larger retailers, energy producers, telecommunications, and airlines such as Southwest.

Meriden Retirement Funds

As of last Friday, the City Employees retirement fund totaled $136.4 million and the Police/Fire pension value was $107.5 million, with equity allocations reported as 61% and 65% respectively. The separately-managed OPEB Healthcare Trust reached a new high valuation of $13.4 million, with 77% of its current investments in equity securities. The OPEB Trust has advanced 11% for the fiscal year after a significant reduction in its gold allocation. The composite pension fund has gained just over 9% during the fiscal year, restrained by a sharp decline of more than 28% in its gold investments since December.

OCM Capital's Greg Orrell met with the Investment Sub-Committee, discussing past performance and his perspective on the volatility, risk, and opportunity of the gold mining sector after its mid-April correction. When gold rallied last fall, the value of the OCM allocation grew to 11.5% in the composite retirement portfolio, but with the recent downturn, that allocation has fallen back under 8%. As gold prices fell, the stock market rallied, fueling outperformers in the pension funds since January: domestic equity managers Matrix, Neuberger, and Armstrong-Shaw. International stock managers (both Franklin-Templeton and Wentworth) maintain strong fiscal year performance, although momentum has slowed since last fall.

In revising its Investment Policy Statement in January, 2012, the Retirement Board discontinued its prior mandate of targeted minimums for specified alternative strategies – relying instead on an allocation range of 10% to 50% for a pool of Alternative Investments. For allocation purposes, we recognize gold and the mining stocks as alternatives rather than as equities. The Alternative allocation now includes 1.5% in real estate, 13% in commodity and financial managed futures, 7.3% in gold/precious metals, and 0.5% in private equity funds. The funds have grown toward a relative overweighting in the larger capitalization dividend-paying stocks that have driven recent performance, providing opportunities for rebalancing.

Virtual Towns & Schools Website