CITY OF MERIDEN

Pension Fund Update, February 11, 2014

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Overview

After posting the worst January in five years, the equity markets have struggled to stabilize with a modest, overdue, but (so far) limited correction – as investors appear to be reconsidering the common wisdom of slow but sustainable global economic growth. As reported by Bloomberg, investors have shifted record amounts out of domestic stock funds and into bonds over the past fifteen consecutive weeks, while withdrawing money from emerging-market equities. Bonds beat stocks last month for the first time since August, as a slowdown in US jobs growth and turmoil in emerging markets from China to Argentina lifted demand for safer securities. January payrolls rose less than projected, blamed on retailers cutting back after the holidays and an unanticipated decline in government hiring. The unemployment rate unexpectedly declined to 6.6%. Bill Gross, who oversees the world's biggest bond fund at PIMCO, said this week that the pace of economic growth in China is among the biggest questions in developing nations and the largest risk for markets. Fed policy makers cut their purchases of Treasury and mortgage debt in two steps to $65 billion a month from $85 billion, citing improvement in the outlook for the labor market.

Equity performance relies on two measurable fundamentals: corporate profits and the price/earnings ratio that investors assign to an individual stock or to the market as a reflection of confidence in the future. Historically, p/e ratios for the S&P-500 have ranged from 7.1 (in 1980) to 29.9 times (in 1999) trailing 12-month earnings. Despite 2013's strong performance, the present ratio of 16.6 times earnings indicates a fairly valued market, but not a market that is under- or overvalued. And an expectation of GDP growth from 2.9% in 2013 to 3.1% for 2014 signals continued improvement in corporate profitability.

Meriden Retirement Funds

While the Dow Jones Industrials and international markets fell more than 5% last month, the Meriden retirement plans dropped less than 2%, defended in part by expanded mid-cap exposure and an unusually high cash position. Bonds gained 1.5%, a clear advantage over the S&P's 3.5% decline, as noted above. The fully invested OPEB Trust fell with the market, but maintains an 8.1% gain for the current fiscal year. The City Employees fund closed last Friday at $136.1 million, and the Police/Fire pensions at $106.8 million, and both funds have gained more than 7.4% for the FYTD.

The composite asset allocation currently shows 46.9% in domestic stocks, 17.5% in international equities, and 14.5% in fixed income. Gold, which made a nine percent rebound in January, now comprises 3.3% of the composite. As of January 31, the retirement portfolios held an elevated position of $22 million within money market funds, some harvested as realized gains while other cash was reserved for, but not yet committed to alternative strategy funds. Additions are scheduled during February to the EJF Debt Opportunities fund and the Alkeon Growth Strategy. New private equity opportunities have developed as well, including one focused on the privatization of government-owned consumer enterprises in China. REIT and managed futures positions have been realigned, consistent with last month's reallocation plan.

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