CITY OF MERIDEN

Pension Fund Update, May 8, 2012

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Meriden Retirement Board

Tuesday, May 8, 2012

Overview

As concerned as they were with the Greek debt crisis, world markets are dealing now with a more serious threat, as French voters have embraced a Socialist response to EU austerity demands. François Hollande rode a populist wave of resentment toward incumbent Nicolas Sarkozy, and promised voters he will raise taxes to 75% on the rich to support government benefit plans, rather than succumb to what the New York Times called a "German-dominated policy of economic austerity in the Euro zone." Hollande has urged renegotiating EU policies to promote growth, rather than require spending restraint from member nations. While Europe suffers from recession and record unemployment, France is not as troubled as Spain or Italy. But those governments likely see last Sunday's vote as another indicator that support for austerity programs will likely unseat elected leaders, rather than reward prudent fiscal management of growing public debts. Voters in Greece also have rejected spending cuts, perhaps setting the stage for EU policy recalculations.

In the US, the latest unemployment report offered a nominal drop in the headline jobless rate, but that decline was acknowledged to be caused by having more Americans who are no longer eligible for unemployment compensation. People who have exhausted their benefits are judged by the Bureau of Labor Statistics to be no longer interested in seeking work. The BLS reports the U-6 Rate, sometimes called the "under-unemployment rate," as 14.5% for April – counting those who have exhausted benefits or accepted part time jobs. The prolonged period of tepid job growth has prompted some to demand additional stimulus, while others argue the continued intrusion of government policy has crippled a nascent recovery.

Meriden Retirement Funds

Meriden closed the third fiscal quarter with a gain of 5.6% in the composite retirement funds managed on behalf of the City Employees and the Police/Fire pensions, but the final fiscal quarter has turned negative, with Q4 down 2.1% through last Friday. As of May 5, the City Employees fund totaled $131.7 million, with 58% of the assets invested in global equities and ETFs, 28% in fixed income, and 15% in alternatives, including managed futures and real estate investment trusts. The Police/Fire fund closed the quarter with $104.8 million, and was positioned with a slightly higher risk exposure, with 60% in equity securities, 24% fixed, and 16% in alternatives. Domestic equity managers are outperforming those who invest in international markets, but gold and mining stocks remain the weakest performers. On a composite level, nearly forty percent of the equity allocation remains invested in international securities, mining stocks or ETFs representing precious metals.

Separately, the Meriden Healthcare OPEB Trust gained 6.5% for the quarter, but has fallen 2.1% in April/May. The OPEB portfolio is Board-managed, and invested primarily in Exchange Traded Funds that currently reflect asset allocation of 62% equities, 25% fixed, and 13% alternatives. The fund receives quarterly contributions from the City, and closed Friday with $8.75 million.

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