CITY OF MERIDEN

Pension Fund Update January 8, 2013

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Meriden Retirement Board

Tuesday - January 8, 2013
Overview

Investment markets are driven by perception, projection, and performance - although not at the same time. With federal tax policy settled last week, investors drove the broad equity market to its highest level in five years, turning its focus from perceived political dysfunction to more rational forecasts of economic trends, consumer and corporate behavior. While critical battles remain over federal spending policies, it is the tax issue that most directly impacts the activity of average Americans and the hiring and investment decisions made by businesses. Accumulating new debt affects future generations, but today's consumer economy depends less on the
potential debasement of the US dollar than on our individual take-home pay and corporate profitability. Thus, markets turn today to the actual measurement of recent performance, as the first new earnings reports are released, providing a look at Q4 results and corporate expectations. We anticipate muted, but encouraging reports that may move the market higher, as guidance for earnings in the final quarter of 2012 has been dramatically reduced. As recently as October (before Hurricane Sandy), the Thomson-Reuters consensus for S&P earnings growth was 9.9%, but that forecast today is just 2.8%. Markets are skeptical of companies that "beat expectations" after lowering their guidance.

Meriden Retirement Funds

The Meriden pension funds closed December with fractional gains, ending the quarter down 1.9%, but maintaining a gain of 5.4% for the first half of the fiscal year, according to preliminary performance calculations. International managers provided the best Q2 returns, while gold/precious metals sharply corrected off their stellar first quarter gains. The City
Employees Retirement fund closed December at $133 million, and the Police/Fire pension funds with $104.7 million. The OPEB Healthcare Trust gained 5.2% FYTD, closing at $11.5 million. Portfolio manager reporting will begin in February.

The non-traded equity REIT known as Corporate Property Associates (CPA-15) merged with its publicly-traded sponsor at the end of September, distributing cash and W.P. Carey common equity shares to investors. Meriden received $425,225 in cash in the transaction and acquired 72,125 shares of WPC, sold in the open market to provide an additional $3.9 million for the
Board alternative strategies funds. During the life of the investment, CPA-15 provided annual dividend income greater than 6.25%, and the closing distribution provided an additional 35% gain. Some of the liquidated proceeds are allocated to the NYSE-listed exchange traded fund FTY: the iShares NAREIT Real Estate 50 Index Fund, which holds the fifty largest US
real estate investment trusts and provides a more diversified risk profile than holding the single equity WPC. The OPEB Trust also has replaced its position in WPC with the NAREIT Index ETF.

The custody transition to Stifel Trust Company has begun with management realignments to comply with trust standards. All existing security positions, cost basis history, and performance tracking data have been preserved, and certified reporting will be established for the final quarter
of FY13. The Board is requested tonight to reaffirm the designation of its Authorized Persons, reapprove its amended Investment Policy Statement, and confirm its revised list of portfolio manager assignments.

This report is provided for the convenience of the client. While information contained herein has been obtained from sources believed reliable, price and performance data may be incomplete. Clients should rely solely upon official statements and trade confirmations. Performance
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