CITY OF MERIDEN

Pension Fund Update October 14, 2014

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Meriden Retirement Board

Tuesday – October 14, 2014

Overview

The domestic economy continues its recovery, favoring capital over labor, but signals of slowing growth in China and Germany have dampened global forecasts as we begin rolling out third quarter earnings. Our colleague Kevin Caron expects another upside bias in corporate profits, noting that S&P earnings in the second quarter were forecast as 4.5% but posted at 7.5%. The consensus expectation for third quarter growth is 5.0%, but Caron reports that profit margins are expanding to record levels, noting that forecasts for 2015 revenues currently project a 4% increase, but with an increase of 11.3% in profits (well above the average 8.5% margins of the past decade). With no inflationary pressures and accommodative monetary policies here and abroad, investors continue to favor US equities, despite increasing volatility.

Highlighting the difference between trading and investing, our crisis-driven markets have rattled some market participants with triple-digit, pinball action on the Dow Jones Industrials. Ebola is the latest concern, impacting not only health care, but air travel and cocoa production. ISIS and Ukraine provide potential challenges to international stability, yet world oil prices are remarkably weak. Eurozone and Japanese stimulus, Iranian nuclear ambition, and the political control of the US Senate all remain significant issues for those who trade headlines. Economic fundamentals still matter more than the daily news cycle. Markets survived the potential secession of Scotland last month, along with the I-Phone6 and Derek Jeter's retirement, but traders established a market peak with the Alibaba IPO. We are reminded of strategist Barry Bannister's call earlier this year, for the S&P dropping to 1850 before a rally into 2015.

Meriden Retirement Funds

Markets are off to a miserable start for October (S&P off by 4.9%, overseas stocks, nearly 6%) as the "inevitable correction" accelerates. September losses were led by smaller equities, with the Russell 2000 index dropping over 6% during that month. Meriden's composite retirement portfolio fell 2.3% in September and 2.8% over the first ten days of October. The 2015 fiscal year surrendered August's small profit, closing the first quarter with a 2.7% loss. The best-performing portfolios in September and October were the Board-directed alternatives, with support as well from shorter-term bond investments. The worst performances come from international equities and gold, with those portfolios down double-digits FYTD.

The City Employees Retirement fund closed last week at $134.6 million, and the Police/Fire pension at $104.6 million. The Healthcare Trust dropped to $19.2 million, although the OPEB fund continues to outperform the pensions, closing the past quarter with a loss of less than 1%.

In compliance with the Meriden Investment Policy Statement, we continue to review individual portfolio manager assignments for performance and fidelity. Asset allocation has been adjusted in concert with the Wilshire Associates guidelines, and additional private equity opportunities are presently under review.

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