CITY OF MERIDEN

Pension Fund Update September 9, 2014

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Meriden Retirement Board

Tuesday – September 9, 2014

Despite rising global tensions and a sobering labor report, investors are riding central bank liquidity to new heights and defying the inevitability of a market correction this fall. Equity indexes again touched new highs. Disappointment over August's slowdown in job creation quickly turned to a celebration of extended credit from the Federal Reserve. Accelerating European distress drives investment into US markets, despite the anxiety of costlier exports from American companies, selling abroad. Good times abound. Bloomberg reports an 84% increase in merger/acquisition activity so far this year, and Merrill Lynch reports that prices of the lowest-ranked stocks in the S&P-500 have outperformed (by ten percentage points!) those with the strongest A+ quality ranks - for a third consecutive year.

Certainly, a rising tide is lifting all boats - with little concern evident for a disruptive squall. Even our cautionary strategist, Stifel's Barry Bannister, believes a 17% market upside to be more likely by year's end than the 6% downturn he previously anticipated. As economist John Maynard Keynes (or Winston Churchill) reportedly once said: "When the facts change, I change my mind. What do you do?"

Meriden Retirement Funds

August and early-September performance has offset the indiscriminate losses of July, returning Meriden's pension composite to positive ground for the fiscal year. While international portfolios remain lower, our capital market guidance supports over-weighting developed markets such as Europe and Japan, while reducing exposure in emerging growth regions. We are expecting a significant return of capital from two prematurely successful private equity holdings before January, providing reinvestment opportunities in additional long-dated partnerships including greater energy exposure and a late-stage venture fund. The OPEB Healthcare trust continues to outperform, helped by the infusion of its quarterly contribution during the market downturn in mid-July.

The City Employees Retirement investments closed last week at $141.9 million, and the combined Police/Fire pension funds totaled $110.5 million. Present allocations for both portfolios show 29% exposure in large cap domestic stocks, 16% in international equities, and 14% in smaller and mid-cap US issues. Gold remains steady at 4%, and 17% is held in traditional fixed income and money market funds. The remaining 20% is committed to a blend of alternative investments, including hedge funds, private equity, real estate trusts, and managed futures partnerships.

The OPEB closed with $20.3 million last Friday, with an ETF portfolio representing 32% in large cap, 20% mid-cap, 14% international, 4% in precious metals, 10% fixed income, 14% in alternatives, and 6% in cash equivalents. Cash allocations in all funds remain relatively high, as most of Meriden's portfolio managers anticipate market volatility will provide buying opportunities within the next several weeks.

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