CITY OF MERIDEN

Pension Fund Update October 2012

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Meriden Retirement Board

Tuesday - October 9, 2012

Overview

European rescue plans, new China stimulus, and a Fed policy of unlimited intervention provided investors with the fuel needed to drive global equity markets higher last month. Economists cautioned against mounting debt and potential recession, yet markets have responded favorably to policies designed to survive imminent crisis, rather than address the structural challenges of governments trying to borrow their way out of debt. Even as he unveiled "QE Forever," Fed Chairman Ben Bernanke appealed again to legislators to address unsustainable budget policies. And a bipartisan group in the US Senate has been crafting a plan to begin debate on taxes and entitlements for consideration after the elections. Most of those involved in the negotiations are not currently on the ballot, affording them more freedom to consider difficult (unpopular) choices.

Stifel Nicolaus market strategist Barry Bannister has reaffirmed his 1600 target for the S&P (1460.93) and suggested that political polarization has created opportunity while many investors remain sidelined. No matter which party takes control, budgetary reality meets the fiscal cliff in December. Bannister believes the survival instinct among political leaders will drive more value into the markets, here and abroad. In Washington, any signal of compromise could unleash sidelined corporate capital, which promotes demand and hiring. Former GE Chairman Jack Welch provided new meaning to the phrase "unemployment claims" last week, suspecting the Bureau of Labor Statistics of shading its September report to win a political headline. (As the Casablanca police captain might have responded: we are shocked, shocked by such a suggestion.) There's no doubt that adding 200,000 new jobs (including revisions) is a positive step, but the 14.7% underemployment rate remains stubbornly high and was left unadjusted. If there's a conspiracy in the BLS report, it was poorly executed.

Meriden Retirement Funds

The composite pension fund now totals $245.6 million and has posted a 7.8% FYTD gain since June 30, while the OPEB Healthcare Trust has advanced 7.2%.

Through last Friday (October 5), the OPEB fund was valued at $10.5 million, the City Employees Retirement fund stood at $137.0 million, and the combined Police and Fire Pension accounts totaled $108.6 million. The pension accounts have transferred $2,178,000 in benefit distributions for participants during the first three months of the fiscal year, reflecting a distribution rate of 3.8%, computed to the opening value of the fund. Asset allocation for the City Employees is 58% equities, 25% fixed income, and 17% in alternative investments (including managed futures, private equity partnerships, and real estate securities). The allocations in the Police/Fire fund are 62-20-18. The funds remain committed to an overweighting in gold, with 11.5% of fund assets invested in gold ETFs and mining equities. Recently, a successful acquisition of the CPA-15 non-traded equity REIT partnership provided new liquidity opportunities for the funds to extend commitments into private equity partnerships managed by Carlyle and Warburg-Pincus.

Strategic adjustments are recommended for the equity allocations among growth and value managers, with increasing emphasis on risk-assets such as financials, technology, and energy/materials to harvest opportunity within the Q4 environment. Thus, reductions are suggested in more defensive sectors such as utilities, health care, consumer staples, and communications. After significant outperformance in the past two years, higher-paying dividend stocks remain attractive, but are expected to follow more dynamic growth equities in a period of expanding multiples.

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