CITY OF MERIDEN

Pension Fund Update February 2010

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Meriden Retirement Board
Tuesday – February 9, 2010

Overview

While drawing some comfort from the latest unemployment report, we provide the following note of caution: the employed population in the United States last month was the same (129.5 million) as it was in 1999. Yet during the intervening eleven years, the nation's working-age population has grown by over 29 million. Furthermore, notes financial columnist John Mauldin, we have just completed a year with the highest level of government stimulus in US history: a full year of zero interest rates and a federal debt burden exceeding 10% of Gross Domestic Product. Most economists believe three percent (Debt/GDP) is sustainable. President Obama's newly-proposed budget has also drawn fire, adding $1.5 trillion in debt for a $3.8 trillion dollar spending plan, while raising taxes and proposing new fees and regulations on healthcare and energy. As Japan has learned, more government debt may keep the doors open, but won't provide sustainable private sector growth, risk capital for business, or stable employment opportunities. And eventually, the debts come due.

The market remains concerned that investor enthusiasm of the past nine months may have been premature, although corporate earnings and retail sales may signal early signs of recovery. With rates so low and a debt bubble expected, investors face the problem of finding even modest returns on their investments.

Meriden Retirement Funds

The Meriden Retirement funds lost ground in January, supporting the Board's last rebalancing efforts. Gold mining stocks, which had been reduced in November, dropped more than eight percent and only the managed bond accounts showed gains for the month. The S&P 500 lost 3.7% in January, and the NASDAQ Composite fell 5.4%. The combined Meriden accounts dropped 4.2% during the month, cutting the retirement plan returns to 11.9% with five months remaining in the fiscal year. However, February began with an encouraging lift. At the close Friday, the City Employees Retirement Funds totaled $119.8 million, and the Police/Fire Pension accounts had $94.6 million. Over 30% of the fund is invested in fixed income and cash, with 12% in alternatives and 58% in high-quality domestic and international equities.

The Board is encouraged to consider further defensive hedge strategies, designed to offset additional erosion in the portfolio during the current fiscal year.

Patrick Sheehan~~~~~
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Mark Hammond~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ ~~~~~~~~~~~~~ ~~~~ ~~ ~~~~~ ~~ February 8, 2010

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