CITY OF MERIDEN

Pension Fund Update, January 14, 2014

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Meriden Retirement Board

Tuesday - January 14, 2014

Overview

US equities are off to a cautionary start in the new year, digesting the supersized performance of 2013 and acknowledging conflicting signals of growth and valuation. Policy adjustments at the Federal Reserve and a hint of compromise at the Congress helped to drive stock prices higher last year, with fourth quarter growth approaching 4%. Our colleagues at Washington Crossing Advisors find concern, however, in last week's "very disappointing jobs report, standing in stark contrast to the composite picture being painted by the rest of the data. Manufacturing appears to be gaining steam, global indicators of output appear better, final demand seems reasonably strong, the trade and budget deficits are reversing, and financial market indicators are steady. Still, the employment report was bad, showing a big drop in the labor pool." They conclude: "A contracting labor force is hardly a sign of strength. The Fed is likely to taking a hard look at the December employment report before deciding on the next taper move. The vast majority of data support the idea that growth is picking up, but Friday's report didn't fit the bigger picture."

A clouded employment outlook remains a challenge for top-line corporate growth and equity valuations. Some stocks will outperform in 2014, but certainly not all. After its dramatic advance, the Nasdaq is now trading at 19 times earnings, rising to meet its statistical norm. Domestic valuations are half-again those of developed international markets, and many investors seeking growth are turning their sights overseas.

Meriden Retirement Funds

The Meriden composite retirement plans closed the second quarter of FY14 with a 4.1% gain, raising the FYTD performance to 9.0%. The OPEB Health Trust gained 7.1% during the quarter, closing December with a FYTD over 11.2%. During the first ten days of January, the Police/Fire fund posted a fractional gain (to $108.8 million) and the City Employees remained flat (at $138.7 million). The asset allocation adjustments made last month put the composite pension plan at 65/15/20 (Equities/Fixed/Alternatives) with increased exposure to international and mid-cap equities and accelerated diversification within hedge funds, managed futures, and private equity. During the fiscal year, fixed income exposure has favored adding high-quality corporate bonds over US Treasury issues, reflecting the capital market forecast of continued economic recovery with little inflationary pressure. International equities moved from 9.9% of the portfolio to nearly 17.8%, precious metals dropped from 4.4% to 2.9%, and managed futures from 10.6% to 7.6%. Large-cap domestic stocks, representing the S&P 500, presently comprise 31% of the portfolio, after harvesting gains from 2013.

Additional investments in Carlyle and Warburg Pincus private equity funds were called during FYQ2, along with initial contributions to the PASF fund managed by Portfolio Advisors, based in Darien. In the hedge fund sector, EJF Debt Opportunities and Alkeon Growth Partners have been supplemented by a basket of publicly-traded shares of listed investment firms. Also, adjustments are underway in real estate (REIT) investments, with weightings being raised in the favored retail, industrial, and hospitality sectors.

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