City of Meriden, CT

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Pension Fund Update January 12, 2016

Overview:

We've all heard the warnings about the danger of having "a bull in the China shop," but apparently no one noticed over the long New Year's weekend, that regulators in Beijing and Washington had set us up for the most disastrous opening week in stock market history. Of course, the New York Stock Exchange, founded on May 17, 1792, has witnessed numerous systemic and regulatory challenges over generations. The People's Republic, however, has a much shorter capitalist experience - with the modern Shanghai exchange beginning trading only 25 years ago - on December 19, 1990. With China emerging as a power in world finance, the Communist regime seeks to open its markets and attract capital, but also to closely regulate private investments, public markets, and currency flows.

After the People's Bank of China devalued the yuan last summer, the predominantly domestic Shanghai market reacted with extreme volatility, not unlike a western market. But the PBOC was rattled. And so it was that regulators issued new market controls - in the form of "circuit breakers" to take effect with the new year, designed to prevent collapsing prices. Sellers welcomed 2016 with a rush to the exits, preferring liquidity to frozen markets. The Shanghai market paused, resumed, and then shut down trading twice last week, trapping investors rushing to sell. The rules were reversed in hopes of stabilizing prices. But what comes next from the government? Their regulatory misstep rippled around the globe causing major sell-offs as investors anticipate slow growth in China and possible recession in global economies.

The central bankers at the Federal Reserve offered little comfort, as economic data barely supported last month's rate increase, with growing concern the Fed move was delayed too long. Corporate earnings are slowing, energy prices still falling, wage growth lacking, and only a well-polished December employment report offered some cover for the Fed. Some analysts now forecast persistent sub-1% rates throughout the new year - running well short of what the Fed had signaled as their normalization targets.

Meriden Retirement Funds:

Meriden's pension plans posted 3.7% growth in the final quarter of 2015, outperforming the major equity indexes in December and outpacing the Dow Jones Industrials for the full calendar year. But the gains of the quarter still left the 2016 fiscal year in the red, with a defensive posture and downgraded expectations entering Q3FY. The only winning portfolios in December were the Board-managed alternative strategies and the Navellier growth fund. For the full quarter however, Matrix, Kayne Anderson, and the Invesco's international strategy posted the best returns, while fixed income and alternatives held flat. January, as noted, began with an historic sell-off that has all the invested funds under severe pressure. Cash and bonds have inched forward, while the alternatives held steady. FYTD, the Meriden retirement funds have fractionally outperformed the DJIA, Nasdaq, and S&P, declining by seven percent since June.

As analysts track declining earnings, large cap value stocks often outperform smaller high-growth issues, and Meriden's policy encourages increased weighting of fundamentally strong domestic equities.