CITY OF MERIDEN

Pension Fund Update April 12, 2011

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Meriden Retirement Board

Tuesday – April 12, 2011

Overview

The official US inflation rate remains suppressed by federal intervention, yet Proctor & Gamble, Colgate and Kimberly-Clark were among those raising prices by 5% or more last week, Delta and US Airways boosted fares, gasoline and oil prices soared, and the CEO of Bed, Bath and Beyond admitted that rising cotton costs will soon force dramatic increases in the price of linens. If demand remains stable, higher prices for consumers provide increased corporate revenues, and stock prices trade on earnings. So life is good, right? Perhaps not for the markets. Wal-Mart CEO Bill Simon warns of a serious spike in inflation in the coming months. And not only consumers suffer, but government debt costs could explode with rising rates. At a difficult time.

The battle over public spending is likely to extend through the fall, as Congress and President Obama wrestle over the limits of government and soaring debt obligations. The recent shutdown threat involved federal spending in the current fiscal year, ending September 30th. Last fall, the Congress failed to enact any formal budget for FY 2011 and the federal government has remained operational thanks to a series of “continuing resolutions,” maintaining programs from FY 2010.

Estimated federal spending of $3.6 trillion in the current fiscal year is supported by just $2.1 trillion in federal revenues, adding $1.5 trillion to the national debt – now $14.2 trillion, up from $5.7 trillion in 2001. The enormity of the debt (borrowing more than forty percent of what we spend this year) has been camouflaged by historically low rates. Thus, this year’s debate over discretionary spending is morphing into a broader context for FY 2012. Future non-discretionary federal spending (including interest obligations, defense and entitlement programs) was placed on the table by the President’s Debt Commission in December, and changes in benefits were recommended as a centerpiece of House Budget Committee chairman Paul Ryan’s 2012 budget blueprint last week. The investment markets aren’t as concerned about funding for NPR and Planned Parenthood, as they are wary of rising debt and inflation.

Meriden Retirement Funds

The Meriden pension accounts closed last week with a composite value of $253,215,643, representing a gain during the current fiscal year of 22.3%. As of last Friday, the City Employees Retirement accounts totaled $140.9 million and the Police/Fire pension value was $112.3 million. The Health Trust account received additional funding during March and now totals $5.3 million. That OPEB Trust has gained 12.5% during FY 2011. As discussed last month, the asset allocation in all three investment pools was adjusted to protect the

fund growth achieved FYTD. Equity stock and ETF exposure for the City Employees Fund, the OPEB Trust, and the combined Police/Fire pensions each now stands at 50%, with 36% in fixed income and cash, and 14% in managed futures alternatives. The reduction in equity exposure began several days before the tragedy of the Japanese earthquakes/tsunami, with funds tactically repositioned in short duration fixed income and increased exposure to inflation-linked US Treasury notes.

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