City of Meriden, CT

Meriden City Hall, 142 East Main Street, Meriden, CT 06450

Pension Fund Update April 12, 2016

Meriden Retirement Board

Tuesday – April 12, 2016

First quarter corporate earnings will be rolling in over the next several weeks, confirming the weakness of the past few months and providing additional "data points" for the Federal Reserve. As usual, public companies will be measured against the expectations of analysts – who base their forecast models on company guidance, competitor intelligence, and industry trends: a firehose of information that results in billions of dollars of investment capital moving through equity sectors over any given week. Earnings and revenues are the realities of corporate performance, while "forward guidance" attracts the greater interest of investors. Despite the slow first quarter, there are signals of improvement. Analysts at Stifel's Equity Compass research unit reported last week that forecasts for both revenues and earnings of the S&P 500 have turned positive for the first time since August, a signal of optimism for investors weary of flatline performance. After a slowdown in GDP between the third and final quarters of 2015, analysts now see the US economy having stalled during the first quarter of 2016. JP Morgan estimates 0.2% growth for the March quarter, well off GDP's annualized 2.0% growth pace last fall.

Stock valuations remain high, as investors await the next move for interest rates. A rate hike at the Fed meeting later this month seems unlikely, analysts say, although public comments from Janet Yellen and her colleagues indicate the markets should anticipate another modest boost in June.

Meriden Retirement Funds

March delivered January's antidote. Equity markets opened 2016 with a huge thud, with leading indexes falling more than six percent. After a relatively flat February, March roared back with seven percent returns among equities, matched or bettered by Meriden portfolio managers Anchor Capital, Invesco, Franklin, Kayne Anderson and Matrix Advisors. It remains to be seen if T.S. Eliot's caution that "April is the cruelest month" will prove true this year, however the composite Meriden retirement funds have fallen 0.53% through Friday, right in line with the S&P 500 index. Last week, the City Employees fund closed with $131.1 million and the combined Police/Fire pensions at $99.9 million. The Healthcare Trust fund has $24.8 million invested, with a quarterly contribution anticipated. As a growing fund, the OPEB Trust performs with somewhat greater volatility than more mature retirement accounts, holding limited positions in alternative investments that help over time to smooth out performance cycles.

The Investment Sub-Committee heard a presentation from Bryan Meckley from Campbell & Company this afternoon on the defensive importance of managed futures exposure in a large retirement portfolio. Next month, the committee will hear a discussion of registered hedge funds: focused or concentrated professionally managed funds that seek global or activist opportunities. And an update on private equity holdings is planned for the June board meeting.