CITY OF MERIDEN

Pension Fund Update, March 13, 2012

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Overview

The US economy picked up 227,000 new jobs last month, continuing a slow but steady pace in recovery while holding the official unemployment rate at 8.3%. Markets rally on good news, but recognize the BLS statistics discount discouraged workers and parenthetically acknowledge that 8.1 million Americans are working "part time for economic reasons." While the BLS reports that total unemployment stands at 14.9%, the trend is favorable, with that U-6 measurement down from 15.9% one year ago.

Other hopeful signs, including encouraging earnings forecasts, have buoyed the equity markets. S&P is projecting 2012 earnings at just 13-times current prices, suggesting an upside bias over the next several months. It is worth noting that the S&P 500 touched its most recent low point of 676 on March 9, 2009, and closed last Friday at 1371. A very healthy three years, while most investors continue to avoid the volatility of stocks.

Debt remains the most serious challenge. Without strong private-sector growth producing expanded tax revenues, governments cannot support the spending levels promised over the past fifty years. Greece finally succumbed last week, as the civilization that replaced hieroglyphic writing with the Phoenician alphabet in 775 BC and developed mathematics and political philosophy – yes, those folks – scrambled to settle debts from years of social welfare spending that far exceeded government income.

Here at home, Moody's Investment Service reports the rate of US municipal default doubled over the past year, with Harrisburg, Pennsylvania, last week announcing it cannot afford to pay $5 million in interest presently due on its General Obligation bonds. Stockton is the latest city in California to default on revenue bonds, and among those in that state considering a bankruptcy option.

Meriden Retirement Funds

The composite Meriden retirement funds advanced 2.2% in February, and presently are posting a 6.0% investment gain for Q3 of FY 2012. The fiscal year has turned positive, up 1.2% for the retirement funds and up 4.5% for the OPEB Trust. Asset allocation for the Police/Fire composite shows 57% in equities, 28% in fixed income, and 15% in alternative investments, such as managed futures and real estate trusts. The City Employees fund also holds 15% in alternatives, but has 31% in fixed income and 54% in stocks.

Three weeks ago, investment manager WP Carey advised us of a pending liquidity event, providing 184% total return on the CPA-15 real estate fund selected by the Meriden Board in 2002 when it developed its Investment Policy commitment to non-correlated, alternative assets. This is the third successful exit from Meriden's alternative funds, returning nearly $20 million on the Board's original investment of $9.1 million. Two CNL Partnerships were liquidated in 2006 and 2007, and the WP Carey merger/exchange is anticipated for completion in late summer. Replacement alternative strategies will be presented to the Board next month, in order to maintain the diversification and correlation mandates of the Policy.