CITY OF MERIDEN

Pension Fund Update, May 13, 2014

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Meriden Retirement Board

Tuesday - May 13, 2014

Overview

A cautionary consensus has been building among technicians, concerned that equity prices may soon face a downdraft appropriate to the unpredicted stock market surge of late 2013. In Wall Street's popular lexicon, rotation has replaced tapering as the directional bogeyman. The Russell 1000 index of the largest US companies has gained 2.66% since January, while the Russell 2000 index (charting smaller and mid-cap stocks) had fallen 5.69% before a recovery bounce Monday. That exemplifies historic and troubling divergence. Rarely have we seen popular indices such as the S&P and Dow Industrials reaching all-time highs at the same time that many recent high-growth darlings have collapsed through their trading support levels. Fantasy forecasts based on revenues have given way to old fashioned net-earnings and shareholder income, as investors eye the sidelines - hoping to avoid a substantial correction.

But of course there are no assured predictions. Just six months ago, market seers found apparent universal comfort in the interest rate on 10-year US Treasury bonds breaking above 3.0% on its way to 3.5%. Yet rates for that popular benchmark bond have spent most of 2014 closer to 2.5% as the bond market trims its projections for economic growth through the rest of the year.

The labor market and capital spending remain stubbornly mired in indifference. Only the most partisan observers find comfort in recovery forecasts that adjust base assumptions or ignore the inconvenient millions who have opted out of the US workforce. In an escalating political climate, those sheltered from the storm may outlast the brave souls poised at the edge of a cliff, enveloped by powerful gusts that will lift them to market glory. Or perhaps toss them to the rocks below. We favor bull market prudence.

Meriden Retirement Funds

The Meriden retirement fund composite gained 2.02% since January, tracking

ahead of major indexes and plan benchmarks. For the 2014 fiscal year, the City Employees fund has advanced 11.0% year-to-date, while the Police/Fire plan gained 11.7%. Total retirement assets stand at $249.3 million. The OPEB Health Trust has gained 11.8% FYTD, and totals $18.4 million through last Friday.

Several equity managers recently responded to market enthusiasm by raising cash levels, anticipating opportunity at lower price-points. Our capital market assumptions continue to favor international and large cap domestic stocks while forecasting increased equity volatility, stabilizing energy pricing, and interest rates "drifting higher." Recommended adjustments include reduced REIT exposure, but increased weight to industrials, high-yield, and long-dated energy development. Meriden's overall equity exposure remains at 68%, with additional equity interests imbedded in hedge fund portfolios and private equity partnerships. We recommend to the Board that the defensive OPEB cash position be assigned within the same allocation rationale, adding to high yield, deep-value, and non-correlated equity funds.

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