CITY OF MERIDEN

Pension Fund Update, June 11, 2013

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Meriden Retirement Board

Tuesday – June 11, 2013

Overview

Tectonic shifts from the Pacific Rim, as the Japanese scramble to resurrect their once-booming economy that's been mired in deflation for twenty years. By revving up the printing press and driving down the value of the Yen, the government of Premier Shinzo Abe hopes to spur 2% inflation – modest by global standards, yet elusive to the world's third-largest economy. And while the Japanese escalate Quantitative Easing, policymakers at the US Federal Reserve have been tracking suggestive economic reports and spending the past few weeks signaling potential modification of the Fed's aggressive intervention that has cratered interest rates, without significant effect thus far on employment. US regulatory and tax policies continue to impede labor demand, leaving employers sidelined as new healthcare mandates loom.

Discussion of Fed "tapering" – perhaps reducing new purchases, but maintaining an aging portfolio – has caused significant market changes, particularly in fixed income. Mortgage rates have spiked higher, and bond funds lost value last month. Equity rotation favors financials and technology, while rate-sensitive utilities and home-building turned lower. Quality dividend stocks remain a favored alternative for skittish bond-investors, although the safe-haven large caps may be vulnerable to trading programs searching for growth. S&P upgraded its rating of US debt this week, shifting from a Negative outlook to Stable, while raising its 12-month forecast for equity prices from 1670 to 1780.

Meriden Retirement Funds

The composite Meriden Retirement funds closed May at $240.2 million, with fractional losses fueled by negative returns in bonds and gold. Similar pressures continued into June, with the City Employees fund closing last Friday slightly above $134 million and the Police/Fire value at $105.6 million. The OPEB Healthcare Trust continued to outperform the pension funds, touching $13.5 million during May, before settling back at $13.2 million through Friday. For the 2013 Fiscal YTD, the City Employees retirement fund stands at 7.2%, the Police/Fire pensions at 7.8%, and the OPEB fund at 9.4%.

Addressing the fiscal year portfolio rebalancing, the Board will consider the risk tolerance guidance of the IPS. We would note that the present environment of rising interest rates is expected to further erode the market value of bond portfolios and can threaten accumulated gains in real estate and related sectors. Risk mitigation is also required with regard to gold and mining stocks, where the funds have relinquished significant unrealized gains since the first of the year, without sell limits in place. Since the fixed-income and gold portfolios remained marginally profitable at the end of May, the fiscal year provides an appropriate time for risk reduction and reallocation. Cash, cash-alternatives, and long-dated private equity provide opportunities for a more defensive posture heading into the near certainty of Fed-induced market volatility during FY14-Q1/Q2. As noted last month, private equity remains under-represented in the Meriden portfolios, presently less than one percent of the composite fund value. Cash allocations also can be raised to addressing liquidity requirements.

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