City of Meriden, CT

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

Pension Fund Update November 7, 2016

Meriden Retirement Board
Monday – November 7, 2016

The only certain outcome is unprecedented political bitterness, which will limit the potential for dramatic change in the months ahead. With general agreement of a sharply-divided electorate heading into Election Day, it will be difficult – to say the least – for either President Clinton or President Trump to win support from the opposition once the final votes are cast. Lacking consensus, the victor will govern primarily by executive (not legislative) action and may well face court challenges for initiatives on healthcare, energy, or immigration. Equity investors have been selling off and stepping toward the sidelines, uncertain of regulatory, taxation, and policy changes that might impact global trade, major economic sectors, and corporate profits. The S&P 500 index declined last week for the longest stretch since 1980 amidst this uncertainty, while oil prices fell dramatically on doubts of a potential OPEC production limit agreement. After another unexpected FBI letter, the markets surged higher today.

Tuesday's election returns will provide the markets an opportunity to purge excess valuations, and then to return focus to economic fundamentals. With the addition of 161,000 jobs in October, and the upward revision of 44,000 jobs in September, job growth has averaged 181,000 a month so far this year; the number, while respectable, is far below last year's average of 229,000. The unemployment rate edged down to 4.9% as fewer people sought jobs. Still, and perhaps most important, average wages grew 2.8%, the strongest pace since June 2009. The report evidences a tightening labor market and supports expectations for the Federal Reserve to raise rates at its December policy meeting. Following its meeting last week, the Fed noted that inflation has "increased somewhat since earlier this year," and that the "case for an increase in the Federal Funds rate has continued to strengthen."

Meriden Retirement Fund

After a positive first quarter, index performance for the fiscal year turned negative as October's losses accelerated into early November. Meriden's retirement funds have fractionally outperformed the S&P throughout the quarter. For FY'17, portfolio managers from Legg Mason, Matrix, Dorsey-Wright and Franklin are providing upside contributions, while Invesco and midcaps Anchor and Kayne-Anderson lost ground. The long-short CPG Activist Fund continues to struggle in the current environment, weighing down composite performance, although the range and agility of the Fundamentals ETF balanced strategy has stabilized overall returns by providing emerging market and tech exposure without the binary risk of hedge funds. We continue to favor a strategy of long-dated private equity, real estate, energy and commodity investments, coupled with tactical exposure to high-quality domestic stocks and a broad portfolio of foreign markets.

Asset allocation remains defensive but opportunistic, with 56% in equities, 20% bonds, 20% alternatives, and 4% in cash. Adjustments recommended tonight would raise exposure to large cap value, reduce midcap commitments, raise additional short-term fixed income, and increase emerging markets.