City of Meriden, CT

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

Pension Fund Update November 12, 2014

Meriden Retirement Board

Wednesday – November 12, 2014

Overview

With October's correction and November's election now behind us, patient investors have been rewarded with record US equity prices and strong corporate earnings. Interest rates remain historically low, while energy prices have plummeted. Transportation and manufacturing should benefit from lower costs, as will consumers. Collapsing oil prices could drive a healthier holiday shopping season, as Americans are able to spend less at the gas pump and more at the mall. One analyst estimates the impact of lower energy costs to be equivalent to $100 billion of additional "stimulus," arriving just as the Feb closes down its bond-buying program.

Last week's labor report underscored the riddle of the domestic economy: over 200,000 new jobs added for a ninth consecutive month and the lowest unemployment rate since 2008. Yet the labor force participation rate held at its worst point since the malaise days of 1978. Federal Reserve policymakers remain concerned about tepid progress in personal wages. Without sufficient demand for labor, wage inflation remains low, masking inflation's overall household impact. However, food prices have been soaring, with cheese, pasta, and chicken all sharply higher. The pizza chain Papa John's reported that its market price for cheese was $2.14 per pound in the third quarter, up 23% from last year's cost of $1.74.

Amid forecasts of a contentious political environment and battles over immigration, tax, and energy policy, Stifel strategist Barry Bannister expects the US markets will rally through the remainder of 2014, and then advance further – to lift the S&P-500 to 2300 next year. Ebola and ISIS have receded as significant economic concerns, but rising pressure on Vladimir Putin remains a potential flashpoint.

Meriden Retirement Funds

Meriden's retirement funds recovered from the sharp downturn in October, and now show fractional gains for the current fiscal quarter (FY'15/Q2). Domestic midcap and large-cap equities have provided the leadership, with gold and international stocks sharply lower. The City Employees Retirement Fund closed October at $138.2 million, with 60% in equities, 23% in fixed income, and 17% in alternative investments. The Police/Fire pension funds held 61% in stocks, 19% in fixed income, with 20% exposure in alternatives. The combined Police/Fire fund closed October at $107.4 million. The $21.1 million OPEB Health Care Trust shows a 2% gain for the current quarter, with 85% in equity-based securities, 5% in fixed, and 10% in alternatives such as private equity, gold, managed futures, and hedge funds.

Revised portfolio assignments took effect during October, as well as a rebalancing of international equity management. Confluence, Invesco, and Legg Mason have been invited to update the Board early in 2015, following the annual review of the Investment Policy Statement (IPS). Asset allocation and CMA (Capital Market Assumptions) will reflect the realignment and consolidation of alternative asset classes.