STIFEL

**Meriden Retirement Board**
*Tuesday – December 12, 2017*

## Overview

Fueled by tax reforms, regulatory relief, and improving employment trends, US equity indexes touched new highs this fall, as market analysts forecast expanding reinvestment and increased profitability for the coming year. However, the extension of a nearly nine-year-old bull market might well provide conditions for a market top in 2018, with a late-cycle turn toward value stocks and significantly lower annual returns in the decade ahead. Stifel strategist Barry Bannister believes 2018 will provide a cyclical "grand finale" for the recovery since the Great Recession. Corporate earnings are expected to improve on tax reductions, lifting the S&P toward Bannister's target of 2750. Based on a 62-year S&P model, Bannister suggests the last run for stocks will be tripped by higher interest rates, increased inflation, and currency challenges that will combine to constrain annual returns to an average 3-to-5 percent range for the following decade.

The Federal Reserve Board is widely expected to raise rates again tomorrow, with growing expectations for more aggressive tightening next year. The pending tax legislation is seen by the Fed as stimulative for the economy, just as the Fed is removing its policy stimulation after years of Quantitative Easing.

## Meriden Retirement Fund

After posting a 4.5% net return during the first fiscal quarter, the Meriden retirement fund gained another 1.4% in October and 1.8% in November – exceeding its benchmarks for FY'18. Through November, the index-blended Fundamentals ETF accounts have gained 7% FYTD, while the Dorsey-Wright and Kayne Anderson advised accounts added 21% and 17.8%, respectively. Meriden's fixed income accounts remained relatively flat, gaining just one percent thus far, while the Alternatives mix of private equity and hedge funds has gained 4.3%. The composite pension fund closed November up 7.9%, FYTD. While growth strategies remain ahead of value, an overweighting in financials has provided a lift for Matrix and Anchor in early December. The overall asset allocation for the pension fund remains 69% in equities, 17% in fixed income, 10% in alternatives, and 4% in money funds. The OPEB Healthcare Trust has 3% in alternatives, 2% in cash, 75% in equities and 20% in fixed. After receiving its quarterly deposit from the City, the OPEB fund has reached $34.4 million with a gain of 6.7% FYTD, after all fees. Each of the funds (CE/PF/OPEB) has gained over 15% for calendar year 2017, YTD.

Since we last met, we have closed the Campbell managed futures account and liquidated positions with both EJF Debt Opportunities and the Central Park Group Activist Fund. Additional investments were called for Oak Hill Capital Partners, as well as CPG's WPXI and WP Energy funds. Distributions have been received from the Portfolio Advisors Secondaries Fund and from Oak Hill, representing returns on earlier round investments by the City Employees and the Police/Fire pensions. Earnings in the Healthcare account were booked from a recallable Warburg Pincus XI distribution, as well as from maturing Equity Compass Buyback strategy notes purchased in 2014.

International tax recovery efforts by Stifel Trust provided $64,449 in net income to Meriden funds during 2017, and we urge Board approval for submitting filing fees ($728) to the IRS and Globe Tax for 2018.

Patrick Sheehan
Mark Hammond
Gerald H. Glass

December 11, 2017
DJIA: 24,386.03
S&P 500: 2659.99

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