City of Meriden, CT

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

Pension Fund Update September 8, 2015

Meriden Retirement Board

Tuesday – September 8, 2015

With Labor Day behind us, perhaps our investment focus can stabilize as we drive toward the critical final quarter of the calendar. The summer of 2015 will be remembered as a rollercoaster ride, rather than a day at the beach – with world markets in turmoil, following a period of unusually tight trading ranges during the first half of the year. The unmistakable slowdown in growth for China, turmoil in the Middle East, and Greek drama for the European Union each played a role in a summer of uncertainty. Traditionally light trading volumes during the season served to magnify the daily market scorecards, but also afforded a long overdue correction that washed out some sectors, as managers scrambled for cover. Historically, the market tracks a ten percent index correction every eighteen months, but extended to 45-months before last month's plunge. With valuations now pegged below their historic means, investors now return focus to Federal Reserve policy while measuring the relative strength of the US economy.

The Labor Department reported Friday that 173,000 jobs were added to the civilian workforce in August (just short of expectations of +217,000) while the unemployment rate dropped to 5.1%. But the participation rate remained low, and average earnings were up just 2.2%. If the Fed thought their decision was complicated before, Friday's report will now make it more challenging for a unanimous decision at next week's most anticipated meeting in years. Those who argue for a rate increase may claim the drop in the unemployment rate signals an economy strong enough to digest paying more to borrow capital, but the true health of the labor market may be better reflected in the BLS acknowledgment that more than ten percent of the workforce remains under-employed and that momentum in the labor market has slowed.

Meriden Retirement Funds

The sharp decline of global investment markets in August dropped all major indexes into negative ground for the first time since January, as stocks, bonds, commodities, and international holdings all suffered significant corrections. After a defensively flat performance in July, the Meriden retirement funds dropped more than 3.6% in August – compared to more than 6% losses for both the Dow Industrials and the S&P 500. Several managers continue to carry higher cash levels trying to avoid the worst of the market damage. September however also launched a dud, starting the month with additional significant losses prior to today's attempted recovery rally. The commitment of nearly 20% to long-dated alternative securities provided a cushion to the Meriden pension accounts, allowing for relative outperformance in both the City Employees and Police/Fire funds. But the new fiscal year has started with a sharp downturn in values for all public pension plans.

Several of the private equity investments initiated in 2011/12 have begun capital distributions, providing a reinvestment challenge. Both the Carlyle and Warburg-Pincus funds are developing follow-up offerings which may become available later this fall. Elsewhere in the alternatives, precious metals continue to suffer losses despite global anxiety, and managed future funds are struggling to identify investable trends that support significant opportunities. As Fed policy becomes clarified, whether this month or later in the year, we believe a realignment of asset allocation will be required.