City of Meriden, CT

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

Pension Fund Update March 10, 2015

Meriden Retirement Board

Tuesday -March 10, 2015

Overview: After two years of anticipation, US interest rates may finally be rising in response to reports of improved economic performance. February's unemployment report from the Bureau of Labor Statistics surprised analysts from all sides of the political spectrum, as employers added 295,000 jobs. Growth was reported throughout the private and public sectors, dropping the jobless rate to 5.5% while the under-employment rate touched 11.0%. This continued trend in hiring is expected to reinforce the Federal Reserve Board's desire to raise rates this year - and triggered sharp selloffs in both stocks and bonds. Within hours of the release of the BLS report, the yield on a 10-year US Treasury bond jumped from 2.11% to 2.25%, and the Dow Jones Industrial index fell 300 points before settling at 17,857 on Friday. The Fed may hold steady for a while, as concern remains for a lack of wage growth and historically low labor force participation, but the trend in hiring has advanced expectations for a rate increase this year, not next.

The Wall Street Journal reports that state-level public pension funds improved average funding ratios last year from 74% to 80%, but remain well below the 2007 peak of 95%. A Wilshire Consulting survey of 131 pension systems shows average return targets of 7.65% but performance of 5.99% over the past ten years, as pensions reduced stock exposure in the wake of the financial crisis. Wilshire reports that funds held an average 28% in US stocks in 2014 - down from 45% a decade earlier - as fund managers added international equities, real estate and private equity funds in search of return. The consulting study found about two-thirds of pension portfolios currently allocated to equity, with fixed income making up the rest.

Meriden Retirement Funds: February was an excellent month for investors, and Meriden's composite retirement funds gained 2.9%, adding more than $7 million in value to the pension accounts. The Health Trust OPEB account advanced 4.6% in the month, closing with a 6.6% gain for the fiscal year to date. The City Employees fund closed the month with $142.9 million and a gain of 2% for the fiscal year, and the Police/Fire combined accounts totaled $110.8 million, showing a 2.1% gain. Despite last week's reactive selloff, the Meriden funds all remained positive for 2015, with the pensions gaining 1.4% and OPEB up 2.6%, bettering just fractional gains for the DJIA and S&P-500, while bond indices fell in value.

Anticipating opportunities in coming months, several of Meriden's equity managers hold elevated cash positions of seven to ten percent, while our fixed income advisors have assumed more defensive strategies in a rising

rate environment. Alternative funds are exploiting volatility and market transitions, with recent outperformance from Campbell, Alkeon, and Central Park Group's Activist Fund. Asset allocation targets are being adjusted for the present cycle by reducing traditional fixed income, raising long-short hedge opportunities, and favoring commitments to real estate and international equity.