CITY OF MERIDEN

Pension Fund Update June 14, 2011

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Meriden Retirement Board

Tuesday – June 14, 2011

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Overview

The decline in the equity markets accelerated through May and into early June, as investors respond to continued housing and unemployment concerns. Jobless rates are up, and housing prices have started to decline again. Despite aggressive federal intervention, the US economic growth rate has shriveled, raising concerns of a possible double-dip recession. Auto sales have slipped, new jobless claims are rising, and inventory growth accounted for two-thirds of the GDP growth during Q1. Harvard economist Martin Feldstein wrote in the Wall Street Journal: "the economy is worse than you think." As Congress debates increasing the debt ceiling, a Chinese bond rating agency – Dagong Global Credit Rating – last week claimed the US has already defaulted on its sovereign debt "by allowing the dollar to weaken against other currencies, (thus) eroding the wealth of creditors including China."

For the past year, the United States economy has been supported by massive federal investment through a quantitative easing policy aimed at promoting consumer and industrial demand. This QE2 program has been labeled a failure by many economic analysts and will soon expire. However, some political analysts expect two struggling markets (job and stock) will combine with the election calendar to prompt another round of intervention. The new plan, they suggest, would invest in a national infrastructure renewal program, additionally providing direct support for struggling state governments by reducing the potential downsizing of services and public employment.

Meriden Retirement Funds

Meriden's fixed income accounts performed best over the past month, providing positive rates of return for the $25 million in additional assets shifted by the Board from equity accounts back in March. None of the equity managers posted positive performance during May. The price of gold also declined last month, as did the market value of the managed futures portfolio. The composite maintained a defensive posture, with asset allocation for the retirement fund positioned as 50.6% in equities, 33.6% in fixed income, and 15.8% in alternative investments. Meriden's OPEB Health Trust account also maintained a defensive bias, using mutual fund and exchange-traded fund (ETF) securities to mimic the retirement allocations.

The combined Meriden pension accounts closed May with more than $251.7 million in assets and a fiscal year gain of 22.4% percent. After ten days in June, the composite slipped to 19.4% FYTD, with fourth quarter returns down 1.6%. The latest quarterly comparison reports, released last month, show Meriden's Police/Fire pension fund posting outstanding results through March 31, with trailing one, three and five-year annualized returns of 17.3%, 5.1%, and 6.8%. The comparable BNY Mellon Master Trust Universe median return for public plans was 13.4%, 4.3%, and 5.9%, and the State of Connecticut's Municipal Retirement Fund posted 11.3%, 3.5%, and 4.2% annualized returns. Meriden's City Employees fund performed best of all, returning 18.4%, 5.4%, and 7.0% for the same periods.

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