City of Meriden, CT

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

Pension Fund Update May 12, 2015

Meriden Retirement Board

Tuesday – May 12, 2015

By the end of May, investors and policymakers could be weighing the potential impact of a recession, as continued strength in the dollar, rising US trade deficits, and slowing growth in government spending combine with a (surprise!) cold winter to suggest that our economy actually shrank during the first quarter of 2015. The Commerce Department's "advance" report on Q1 gross domestic production – our broadest measure of economic activity – surprised many last month, posting a feeble advance of just 0.2% after the prior quarter's 2.2%. Shortly after the GDP report, the very same Commerce Department released its latest report on US trade activity, confirming the largest deficit between imports and exports since 2008, far exceeding the assumptions imbedded in its earlier GDP report.

The classic definition of a recession is two consecutive quarters of GDP contraction. On May 29, the folks at the Bureau of Economic Analysis are expect to release their "second look" at GDP, and odds are said to be very strong they will revise their Q1 data and confirm that our economy not only slowed, but slumped back into "negative growth." We actually experienced a similar brush with recession early last year, but growth rebounded sharply in the spring and summer of 2014, as the Fed exited its quantitative easing program. Half way through Q2, the question is: are we in a snapback recovery? Retail sales may provide a clue this week, and the unemployment report Fridayseemed favorable. But the Fed is expected to remain cautious about raising interest rates without clear evidence the US economy is expanding.

Meriden Retirement Funds

The pension funds closed April with fractional gains, but jumped forward in early May. The retirement account composite remains ahead of the S&P-500 for the 2015 calendar year to date (+3.5%), although trailing the performance of the more flexible OPEB portfolio (+4.3%). Investment managers Anchor, Invesco, and Confluence maintain elevated cash positions, anticipating opportunity. Capstone has rebalanced its portfolios, as requested last month, to a 50/50 split between stocks and high-quality bonds.

For the 2015 fiscal year, large cap domestic portfolios continue to lead the pack, while international funds have recovered since January from the punishing sell-off of last fall. At the close of last week, the market value of the City Employees fund was $143.2 million, the Police/Fire Pension stood at $110.7 million, and the Health Trust OPEB at $24,240,000. Asset allocation for the retirement accounts show 62% in equities, 19% in traditional fixed income and cash, and 19% in private equity, hedge funds, managed futures, and other alternative strategies. The OPEB growth fund holds 85% in equity-based securities, 10% in alternatives, and just 5% in fixed income and equivalents.

We anticipate capital inflows from the closing of the Multi-Strategy Fund at Campbell, and a realignment of the managed futures, hedge fund, and real estate allocations this month. Cash transfers are scheduled for payments from the benefit funding accounts, and private equity capital calls are being processed for the Warburg Pincus energy fund and for Brookfield Property Partners.