CITY OF MERIDEN

Pension Fund Update, March 11, 2014

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Overview

The US economy is struggling forward, with a long-overdue upside surprise in last Friday's jobs report. It's far from robust, but the growth in the labor force seemed sufficient to confirm the Federal Reserve's tapering program, thus prompting a turn higher for interest rates. With the 10-year Treasury bond still trading below 3%, the slow recovery in housing continues and corporate profitability is trending higher. While driving US equity markets to record highs again, investors have kept a wary eye on developments in Ukraine, Syria, and Iran. Russia's annexation of Crimea will test the western powers, but military intervention seems unlikely. President Putin seems focused on reassembling the Soviet bloc, favoring ethnic and economic weaponry for the battle.

The market recovery last month balanced off a disappointing January, pulling most blended indexes back into marginally profitable ground for the calendar year. Any grand bargain budget compromise now appears impossible, with mid-term election season well underway – and both parties pressing ideological wedge issues such as healthcare repeal, minimum wage, gay marriage, legalized drugs, amnesty, mass surveillance, and global warming. The good news is that investors welcome political stalemate. Without compromise, deadlock remains a friendly environment for the markets. Environmental regulation could cause disruption in some sectors, but fundamental disruptions are not expected during a campaign year.

Meriden Retirement Funds

The composite Meriden funds gained 4.2% in February, with domestic equity-only managers improving by 5.2% and international managers advancing more than 6%. The retirement plans have posted a 2.4% gain since January, lifting performance for the fiscal year to date (sinceJuly 1st) to 11.7%. The City Employees Retirement fund closed last week with $141.0 million, and the combined Police/Fire pension funds held $110.6 million. Equity allocation in both of the funds tops 68%, with fixed income under 14%, and 6% in cash. Alternatives now average 12%, with additions to private equity and gains in hedge performance. The Board-managed OPEB Health Trust has gained 12.4% for the fiscal year, invested in a blend of exchange-traded funds that pursue long-term growth to address future benefit obligations.

The allocation adjustments recommended for the current fiscal year reflect an increase in international equities and greater exposure to alternative investment funds. While managed futures remain a core non-correlated holding, adjustments in fund styles (balancing of commodities, currencies, and interest rates) has been complemented by additions of equity and debt hedge management, as well as a series of private equity holdings. In April, the Board will review the alternatives allocation with an overview of all present holdings, plus a presentation on global debt opportunities.

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