City of Meriden, CT

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

Pension Fund Update May 10, 2016

Meriden Retirement Board / Overview

Tuesday, May 10, 2016

Lackluster growth has settled in over the US economy, potentially freezing the Federal Reserve Board's plan to boost interest rates in June or perhaps over the next few months. Central bank policies designed to stimulate growth have yet to normalize business conditions, and forecasters have started downgrading the outlook for the current quarter following a sub-par performance in Q1 of 2016. April's unemployment report added to the cloudy outlook, hinting of wage pressure but with disappointing job creation.

This is not good news for an equity market entering its most challenging time of year. Historically, stock prices perform best between November and April, and significantly worse from May through October. Over the past fifty years, the S&P 500 has provided average returns of 6.6% in the fall/winter period, but gained just 0.84% during the spring/summer. Investors remain concerned, having been whipsawed by an unexpected 11% plunge during the first six weeks of 2016, followed by a rebound to breakeven.

As confirmations of slow growth emerge in coming weeks, we are reminded of the old Wall Street adage: "Sell in May, and go away." Parking assets in low-yielding cash-equivalent money markets makes little sense, of course, unless we accept that fractional positive returns are preferred to potentially significant losses. With political uncertainties and policy-enlarged volatility impacting US equity prices, we believe cautionary flags are flying over the summertime circuit.

Meriden Retirement Fund

Meriden's pension and healthcare portfolios closed the month of April in line with the S&P 500 index, continuing a recovery from the low of the February meltdown. Over-weighted allocations to fixed income and dividend stocks have provided a defensive tilt to the retirement funds, but volatility impacts the longer-dated OPEB Trust. Consolidating the management of index-driven exchange traded funds (ETFs) in the OPEB has provided greater stability during the past month. The efficiency of the Wilshire-advised Fundamentals model increased correlation to broad market trends. The City Employees fund closed April with $131.9 million; the Police/Fire pensions totaled $100.1 million; and the Health Care Trust reached $25.9 million – boosted by the City's quarterly contribution.

New allocation guidance and due diligence reviews provide the foundation for recommended rebalancing adjustments this month, reducing portfolio commitments to growth stocks, smaller cap, and international markets. Dividend-paying value stocks and corporate fixed income holdings are providing stability and income in the retirement plans. The advisory Fundamentals ETF strategy blends value and growth shares with corporate and government bonds inside a managed account. The pension composite allocation to equities drops from 57% to 54%, increasing fixed income to 28%, with alternative positions (managed futures, private equity, and hedge fund strategies) unchanged at 18%.