CITY OF MERIDEN

Pension Fund Update, August 13, 2013

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Meriden Retirement Board

Tuesday - August 13, 2013

Overview

Wall Street, like Main Street, struggles with a dependency issue. State and federal governments remain mired in deficit spending - borrowing billions from future generations to support a desired complement of present-day public services. Most folks agree that the services are required, despite an accumulation of unsustainable debt. Policymakers find little common ground on how to break the dependency cycle.

So too, corporate America and the US banking system. Approaching the Great Recession of 2008, the federal government acted quickly and massively with commitments to prevent systemic collapse. TARP (the Troubled Asset Relief Program) was followed by Stimulus, funding vital programs and public works. Yet the direct spending paled by comparison to the trillions quietly committed by the Federal Reserve. Between 2007 and 2013, the Fed tripled its balance sheet, creating new money to invest in government bonds to hold down interest rates and promote growth. The strategy succeeded in lowering rates, but economic expansion remains elusive. And the markets became dependent on Fed intervention.

In May, Federal Chairman Ben Bernanke rattled investors simply by acknowledging that at some future date, the Fed would begin withdrawing. A reduction, he said, "not slamming on the brakes, but easing off the gas pedal." Tapering, as it's known, may be a trigger for market disruption. Debates over raising the federal debt limit and reversing a budget sequester will also impact markets, but the dependency issue will dominate. For nearly six years, the Fed has provided adrenaline for the markets if not the economy, but distorted market fundamentals. As former Fed chairman William McChesney Martin once said, "The job of the Federal Reserve is to take away the punch bowl just as the party gets going."

Meriden Retirement Funds & Health Care Trust

The Meriden funds have surged forward in July, after posting a disappointing June. Over the first six weeks of the new fiscal year, the combined pension and OPEB accounts gained more than $10 million, closing on Friday with a composite value of $253.9 million. The City Employees fund closed at $134.4 million, the Police Fire Fund at $105.1 million, and the OPEB Trust at $14.5 million. While all three of the managed funds surpassed their Policy Index for FY13, only the Healthcare Trust beat its benchmark for the fourth quarter. One, three, and five year averages remain ahead of the Index, although several of Meriden's largest manager allocations weighed down the returns. Two managers extended their subpar performance through a five-year cycle, and are recommended for review/replacement. The allocations to another should be considered for a strategy realignment, to address declining performance by the manager since a 2009 pricing adjustment. Policy interventions to trending markets undermine the effectiveness of

managed futures for risk control, although a Fed exit can be expected to restore the opportunity of appropriately hedged portfolios.

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