City of Meriden, CT

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

Pension Fund Update August 9, 2016

Meriden Retirement Board

Tuesday – August 9, 2016

With the 2016 Presidential campaign officially launched, investment markets begin a new chapter of uncertainty and caution, reacting to polling trends and the potential impact of platform initiatives from the candidates and their parties. The condition of the US economy – presented in partisan context – attracts more public discussion in the next three months than at any other time in the quadrennial cycle. Statistical cherry-picking is common to the debate, favoring one side or the other; and both major parties have histories of providing an October surprise, onshore or overseas. Against this backdrop, investors should brace for increased volatility and elevated suspicion about reports from government agencies or "non-partisan" independent associations.

The Federal Reserve Board has reaffirmed its intention of normalizing interest rates in gradual stages, but plans to maintain accommodative policies for an extended period. With the benchmark Federal Funds target rate at 0.25% from December 2008 through December 2015, policymakers hoped to encourage corporate borrowing for capital investment and new employment opportunities. Since recovering from the Great Recession of 2008-09, the gross domestic product (GDP) has grown at an annual rate of just 2.2%, far below the historic trend of 3.5%. The Bureau of Economic Analysis recently stunned markets with its latest report of GDP Q2 growth at only 1.2% versus forecasts of 2.5%. The BEA downgraded its prior reading of 1.1% for Q1 growth as well, dropping that measure to just 0.8%. Stocks have challenged new highs, propelled by an extended easy credit policy in recognition of slow growth prospects.

Meriden Retirement Fund

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The new fiscal year is off to a positive start, with the retirement funds posting strong gains in July, more than recovering the losses of FY16. The OPEB Health Fund, which fell 1.53% last year, gained 2.94% in July with the moderately aggressive growth Fundamentals ETF portfolio coupled with 16% alternative strategies. The City Employees and Police/Fire pension gains were led by Matrix and Legg Mason, with additional contributions from the international portfolios. Small and mid-cap managers (Kayne Anderson and Anchor Capital) have posted the strongest gains for the 2016 calendar year thus far, but trailed the larger cap managers during July. At the beginning of August, the allocation to international equity was increased to 10%, with the addition of the Dorsey-Wright Relative Strength portfolio. Overall pension fund asset allocation remains committed, but cautious at 56% equity and 25% fixed income, with a 19% allocation to alternatives: managed futures advisors, hedge funds, and private equity placements.

The performance drag experienced by Meriden's original commitment to private equity has started to ease as the early funds begin returning capital. In less than four years, Carlyle's Equity Opportunity Fund has returned over $526,000 to the City Employees on a $1.5 million commitment, yet retains a capital value of $1,227,500. December 2013's PASF investment is also now generating distributions, with each of the original fund commitments growing from $450,000 to more than $644,400.