CITY OF MERIDEN

Pension Fund Update January 2011

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Meriden Retirement Board
Tuesday – January 11, 2011

Overview

Institutional investors found enough scraps of economic data in December to declare the worst is behind us and to roar through the end of the year, driving equity markets to a second consecutive year of double-digit performance. But concern for our US debt burden was rising during the month and employment levels remained stagnant.~ The Barclay's Aggregate bond index fell 1.5% and showcased the challenge of meeting long obligations in a low inflation environment. ~Special concern remains for overleveraged governments at all levels.~ Many believe the next federal bailout plan must provide relief to States that have exhausted their own borrowing capacity while relying on stimulus and other federal funding to maintain current services.~

Against this backdrop, the Tea Party arrives, hoping to yank away the punchbowl. While the movement's elective results were modest, it is far more significant that its message of limited government now dominates the political and economic discussion, and not only in Washington.~ Connecticut's new governor is calling for "re-conceiving government" and "living within our means," while the new governor of New York proposes reducing the public workforce and state income taxes.~ US corporations presently hold historic cash reserves, but resist making blind investments in plant or personnel.~ "We plan on a certain tax structure, and then it changes on us," observed Pratt & Whitney President David Hess last week.

All markets feed on forecasts, and all forecasts are based on assumptions.~ It seems prudent to assume at least some level of tax and regulatory relief for 2011 and to recognize that accumulated generational debt will remain unresolved until our growth cycle ignites significant inflation.~~

Meriden Retirement Funds

Preliminary calculations show the Meriden pension investments gained more than 17% during the first half of the 2011 fiscal year, posting an 8.6% second quarter (ending on December 31st).~ Separately, the City's health benefits trust (OPEB) account advanced 9.8% for the fiscal year, with quarterly contributions being invested upon receipt.~ Smaller capitalization and international managers provided strength, with bond portfolios lagging.~ The best contribution came within alternatives, with the AIS managed futures posting an 18.9% gain for December.~ Overall asset allocation currently stands at 59% equity exposure, with 26% in fixed income and cash, and 15% in alternatives.~ For the 2010 calendar year, the composite Meriden pension funds gained 14.5%

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