CITY OF MERIDEN

Pension Fund Update June 2010

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MERIDEN RETIREMENT BOARD

TUESDAY – JUNE 8, 2010

Overview

This past month enters the record book as the stock market's worst May (down 8.2%) since 1940, with the S&P 500 providing its long overdue correction, falling 10.5% between April 23rd and the end of May.~ Investors are trapped between rising expectations for corporate profits and a mountain of new government debt.~ Stifel analyst Barry Bannister suggests the US government has created the illusion of a normal cycle by providing $2.5 trillion in assistance from the Fed and the Treasury, and says that it "pays to play along" with the illusion – until the credit rafters break.~ He quotes from *The Wizard of Oz*: "Pay no attention to that man behind the curtain!"~

Greece, Spain, and Portugal have all their sovereign debt downgraded by rating agencies, despite efforts to reduce entitlement spending and public payrolls.~ In fact, the rating agency Fitch cited Spain's austerity program as a contributing factor in the downgrade, because reduced government spending will result in lower GDP.~ Strapped with rising benefit costs and pension obligations, municipalities in California are examining the bankruptcy experience of the city of Vallejo two years ago, according to reports, while public employee unions lobby their State leaders to make municipal bankruptcy more difficult for communities seeking to undermine existing contracts.~~~~~~~~~~

Despite the sharp downturn in May, the Meriden retirement fund maintained a composite 14.4% gain for the fiscal year.~ Losses during the month were muted, compared to indexes, because the Board adopted a defensive position earlier in 2010.~ Total equity exposure remains slightly above 40% and includes a significant position in gold and gold-mining stocks.~ Although gold posted a flat month, Meriden's precious metals manager (Orrell) carries a 56% gain into the closing weeks of the fiscal year.~ International managers (Wentworth & Templeton) continued to struggle over the past month, but allocations to both were reduced significantly back in December.~~~~~

June began with continued stress.~ As of Friday, the City Employees Retirement funds totaled $119.3 million, and the combined Police & Fire pension plan assets were $94.3 million.~~

The latest national and state comparisons show Meriden outperforming its peers.~ For the quarter ending March 31, the State's Municipal Employees Retirement Fund (MERF) posted a trailing five-year annual return of 4.72% and the BNY Mellon median five-year return for more than a hundred large public plans was 4.45%.~ At the same time, the Meriden City Employees plan returned 7.12% annually in those same years, and the Police/Fire pension's return was 7.17%.~

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