CITY OF MERIDEN

Pension Fund Update September 13, 2011

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Meriden Retirement Board
Tuesday – September 13, 2011

Overview

While the electoral debate centers on Jobs-Jobs-Jobs, the economic challenge remains Debt-Debt-Debt. Employment gains are necessary to rebuild family incomes, retail demand, and the housing market, yet a strategy involving additional public employment – direct or indirect – poses new economic and political dangers.~ The President's appeal for publically-funded job-creation might attract more support if the expectation of more borrowing didn't raise the question of an accelerating debt spiral.~ Financing 2012 spending with projected 2020 revenue seems unlikely to pass the "pays-for-itself" smell test.~ Chances of recession are rising, and an economic slowdown would mean lower GDP and reduced earnings, resulting in fewer tax revenues just when government seeks new borrowing to support infrastructure projects.~ Some analysts suggest a recession spike to a $2 trillion federal deficit, causing interest payments to command an even greater share of the federal budget.~ While popular, extended payroll tax cuts – reduced payments into Social Security and Medicare – could further threaten the viability of those programs.~~~

The European Union faces more urgent challenges, with Greece introducing new property taxes, cutting services, and demanding salary reductions for public officials as part of an austerity program, a program still unlikely to resolve its debt crisis. Some analysts doubt the survival of the EU itself, as debt levels in Greece, Italy, and Spain now threaten their neighbors and all major European banks.

As dire as recent political and economic events may appear, Stifel Nicolaus market strategist Barry Bannister believes the remainder of 2011 could provide support for US equities, forecasting "imminent failure for the EU and Chinese top-down models (that) should benefit the US dollar and assets."~ Bannister projects the S&P 500 could close December in the 1300 range, based on second-half GDP, employment and energy cost improvements.~ It closed at 1154.23 on Friday.~ As other analysts have noted, US stocks are presently priced at just eleven time forward earnings, well below historical average.~ Bannister notes limited downside risk for equities, based on earnings expectations and multiples.~~~ ~

Meriden Retirement Funds

The composite Meriden retirement fund closed August with $245.8 million, posting a 1.2% decline for the month, compared to a 2.9% loss for a 60/40 balanced index, and a 5.4% loss for the S&P 500.~ For the 2012 FYTD, the composite remained marginally positive entering the new month.~ The OPEB Trust fund closed August with drop of 0.8%, and down 0.5% FYTD.~ As of last Friday, the City Employees funds totaled $135.1 million, and the Police/Fire pension stood at $107.8 million, reflecting a continued sell-off in September.~ Overall asset allocation stands at 52% equities, 31% fixed income, and 17% alternatives.

Orrell Capital added to its precious metals positions last month, and Capstone Asset Management increases its equity exposure during September, based on market conditions.~

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