

OKLAHOMA STATE PENSION COMMISSION
Minutes
November 12, 2014

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on November 12, 2014, at 9:00 a.m. at the Oklahoma State Capitol, Oklahoma City, OK. Written notice was sent to Commission members and interested parties, posted 24 hours prior to the meeting and filed with the Secretary of State in compliance with the Open Meeting Law. Chairman Miller called the meeting to order.

Members Present: Chairman Ken Miller – State Treasurer; Gary Jones – State Auditor; John Estus – Designee for Preston Doerflinger, Director, Office of State Finance & Secretary of Finance & Revenue; Vice-Chairman Doug Lawrence and Mr. Lou Trost – Governor Appointees.

Others: Ruth Ann Chicoine – Administrator; Don Stracke - NEPC; Kim Heaton – AG Legal Counsel for Pension Commission; Tom Spencer, Julie Ezell, and Melissa Kempkes – Oklahoma Teachers Retirement System; Steve Snyder – Oklahoma Police Pension and Retirement System; Joe Fox and Brad Tillburg – Public Employees Retirement System; Ginger Poplin – Oklahoma Law Enforcement Retirement System; Melinda Streich – Oklahoma Department of Wildlife Conservation; Bob Jones – Oklahoma Firefighters Retirement System; Regina Birchum – Office of the State Treasurer; Norman Cooper – OREA; Paul Pustmueller – BOK/Cavanal Hill; Tommy Chism and Dana Cramer – Oklahoma City retired firefighters; and Shawn Ashley – E Capitol.

2. Approval of Minutes dated August 20, 2014

A motion was made by Commissioner Trost to approve the minutes with a second by Vice-Chairman Lawrence – all in favor to approve as presented.

3. 4th Qtr. FY Investment Performance Analysis and Return Expectations Analysis – Don Stracke - NEPC

The meeting was turned over to Don Stracke of NEPC.

There was little change in the economic situation with 3rd quarter GDP growth was at 3.5%. U.S. trade deficit decreased through August; unemployment fell to 5.9%; housing prices continue to rise; inflation is at 1.7%, interest rates low with the 10-year treasury at 2.49%; and the U.S. dollar is fairly strong.

U.S. equities advance amid increasing volatility; large cap stocks outperformed small cap; and International equities underperformed during the quarter. Private equity commitments totaled \$85.6 billion, with 2014 being the fifth year of increasing commitments. Buyout/growth equity fund volume has declined; venture capital outpaced total commitments for 2013; Asian private equity commitments accelerated in 2014 to \$31.2 billion.

Ten year Treasury yield fell 4 basis points; Treasury yield curve flattened with the spread between two and 10 year rates falling 16 basis points; Treasury Inflation-Protected Securities underperformed nominal Treasuries due to lower inflation. High yield bonds returned -1.9%; emerging markets debt slowed.

Commodities sold off in the third quarter; precious metals and energy sectors declined; U.S. REITS traded down relative to net asset values; non-core real estate investment environment in the U.S. is normalizing; Europe is viewed as the best place for a marginal dollar of non-core real estate investment.

Significant divergence in U.S. manufacturing vs. German, in 2014; currency volatility is likely to continue; emerging market dispersion to remain ongoing theme; take advantage of volatility as central bank policy expectations flow through to markets.

Asset allocation did not have many changes; most plans were within their range. Teachers have had a strong manager selection contributing to their performance. The performance for the systems went down 1.4% for the quarter and was in the 57th ranking percentile. All plans went down during the 3rd quarter, but still among the top in the country in performance; all plans for the one-year performance beat the median for all retirement plans in the country.

Despite episodes of volatility and market corrections, investors have experienced a run of returns across capital markets. Support for these gains have been – expanding debt levels, globalization of markets, technology/productivity – but these are unlikely to provide support in the future. Lower returns create challenges for all investors that must be addressed.

Discussion by the Commission and NEPC regarding the Investment Performance and Return Expectations report, followed.

4. RFP Process – Vice-Chairman Doug Lawrence

Chairman Miller opened the discussion to Vice-Chairman Lawrence as to how the RFP process was proceeding.

Four responses were received on the RFP; one of the four will not be considered, as the bid was for \$282,000. Responses from the other three proposals (PCN, KVK, and NEPC) have been set up in a synopsis in order of the criteria of the RFP and given to each commissioner. Commissioner Lawrence recommended that the commissioners look over the proposals considered and make a decision during the February meeting, still giving the provider six months to be ready for the quarter ending June 30, with meeting in August.

Discussion by the Commission regarding the RFP followed. A motion was made by Commissioner Jones with a second by Commissioner Lawrence; all were in agreement to make decision on proposals in February.

5. Approval of 2015 Meeting Dates

Meeting dates for 2015 were approved by all, no discussion needed.

6. Adjournment

Treasurer Miller made a motion to adjourn; all in favor, meeting was adjourned. The next regular commission meeting will meet February 18, 2015, at 9:00 a.m. at the Oklahoma Teachers Retirement System, Oklahoma City, OK.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator