

OKLAHOMA STATE PENSION COMMISSION
Minutes
February 18, 2015

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on February 18, at 9:00 a.m. at the Oklahoma Teachers Retirement System, 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 and Lynda Dennen - NEPC; David Kinney – AG Legal Counsel for Pension Commission; Tom Spencer and Julie Ezell – Oklahoma Teachers Retirement System; Joe Fox and Brad Tillburg – Public Employees Retirement System; Ginger Poplin – Oklahoma Law Enforcement Retirement System; Bob Jones – Oklahoma Firefighters Retirement System; Regina Birchum and Tim Allen – Office of the State Treasurer; Norman Cooper and Terry Ingmire – OREA; Paul Pustmueller – BOK/Cavanal Hill; Tommy Chism, Mark Nelson – Oklahoma Federal Order of Police; and Bill Hallman, and Dana Cramer – Oklahoma City retired firefighters.

2. Approval of Minutes dated November 12, 2014

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

3. 2nd Qtr. FY Investment Performance Analysis and Actuarial Analysis – Don Stracke and Lynda Dennen - NEPC

The meeting was turned over to Don Stracke and Lynda Dennen of NEPC.

Unemployment rate fell to 5.8% in December; home price index declined, but levels are higher than pre-financial crisis levels. 12-month CPI decreased to 0.8% at the end of December; Fed funds rate remains at 0.25%, and the 10-year Treasury Yield finished at 2.16%. S&P valuations decreased in December remaining above the 10-year and long-term averages. The U.S. dollar continues to strengthen against major currencies as the Fed ends quantitative easing program.

New private equity commitments totaled \$83 billion in the 4th quarter making the fifth straight year of increasing commitments. Venture capital commitments totaled \$44.9 billion, outpacing total 2013 commitments. Asian private equity commitments accelerated in 2014.

Risk aversion permeated fixed income markets in the fourth quarter. The Treasury yield curve flattened with the spread between two-and 10 year rates falling. Investment grade credit spreads continued to widen. Emerging markets debt continued to slow in the fourth quarter.

Commodities sold off in the fourth quarter with the Bloomberg index losing 12.1%. U.S. REITS traded up relative to net asset values. Non-core real estate investment environment in the U.S. is normalizing with select areas remaining attractive. Europe is viewed as the best place for marginal dollar, non-core real estate investment. OPEC and Saudi Arabia have indicated a willingness to allow lower oil prices to persist in efforts to cement market share and reduce marginal supply.

Low real rates suppressed by central banks, squeeze expectations for future returns. Central bank stimulus has been a key driver of market returns. Policy responses have been key driver of capital market results. Currency has been a detractor for US investors allocating abroad over the last 2-3 years. Dollar strength not necessarily relegated to the recent past.

Funded status of the overall plans has increased since July 2013 valuations. Average asset return on the plans' market Value was 19.7% for the fiscal year ending June 30, 2014. Teachers' remain the largest and one of the most poorly funded of the seven plans. The average public pension plan was 71.8% funded in FY 2013.

After legislative changes were implemented in 2011 in Oklahoma regarding COLA's and market returns, there has been considerable improvement. Since 2008-09 losses have been fully recognized as of June 2013 and strong performance has continued, actuarial values have seen more gains. The Teachers' plan has the highest assumed return of all of the Oklahoma plans at 8.0%. Actuarial value tends to lag the market value as gains and losses are smoothed over 5 years.

For fiscal year ending 2014, the recommended contribution to the Oklahoma pension plans was \$706 million, or 11% of total payroll, for fiscal year ending 2015, it is \$605 million. The plans' assumptions are within a reasonable range. Investment return assumptions are in line with other public funds. All plans have in place long term amortization schedules and employ similar actuarial asset valuation methods.

In aggregate, the State's plans are 72.5% funded as of June 30, 2014. Strong asset performance in 2014 helped boost funded status. Recent legislative changes to boost contributions and dampen liability growth have also helped improve funded status.

Discussion by the Commission and NEPC regarding the Investment Performance and Actuarial Analysis, followed.

4. RFP Process – Vice-Chairman Doug Lawrence

Chairman Miller opened the discussion to Vice-Chairman Lawrence regarding the RFP proposal selection.

PCA, having the third lowest proposal, was not considered as they are in litigation at this time; Callan Associates proposal was \$282,000, and was not considered. Commissioner Lawrence spoke with representatives of the two lowest proposals, NEPC and RVK. RVK sent an e-mail response that their proposal of \$98,000, as outlined in their RFP response, was the lowest their company could offer; NEPC sent an e-mail response of an offer of \$100,000 a year, with a maximum allowance of \$10,000 for expenses.

A motion was made by Commissioner Jones to accept RVK's proposal; after a lengthy discussion, a motion was made by Commissioner Estus with a second by Chairman Miller to accept NEPC's proposal; four yes votes, one no - under protest. Motion passed 4-1 to accept NEPC's proposal of \$100,000 a year with \$10,000 per year in expenses.

5. Adjournment

Treasurer Miller made a motion to adjourn; all in favor, meeting was adjourned. The next regular commission meeting will meet in June at the Oklahoma State Capitol, Oklahoma City, OK.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator