

OKLAHOMA STATE PENSION COMMISSION
Minutes
June 4, 2015

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on June 4, at 10:30 a.m. at the Oklahoma State Capitol, Room 419 A&B, 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 the Pension Commission; Tom Spencer and Julie Ezell – 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; 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 February 18, 2015

A motion was made by Commissioner Trost to approve the minutes as presented. Commissioner Jones questioned Item 4 of the minutes regarding the lowest proposal received by NEPC. NEPC did not include a yearly CPI escalation percent and Commissioner Jones would like this clarified in the minutes that there isn't one for the term of the contracts. Don Stracke verified that this was correct. There was a motion by Commissioner Jones to adopt the minutes with changes – all in favor to approve, with changes.

3. Nomination and Election of Chairman and Vice-Chairman

A motion was made by Commissioner Trost to nominate Treasurer Miller to another two-year term as Chairman of the Commission, a second by John Estus with ayes by Commissioners Jones and Lawrence. Commissioner Lawrence nominated Commissioner Trost to be Vice-Chair of the Commission with a second by Commissioner Jones, ayes by Commissioners Miller and Estus. All Commissioners were in favor of both nominations and elections.

4. Review of Commission's Statutory Responsibilities – Commissioner Trost

Commissioner Trost relayed his conversation with Sarah Greenwalt of the AG's office, who had prepared a legal opinion that included the statutory responsibilities of the State Pension Commission. That opinion noted the Commission is required to publish an annual comparative performance report providing additional data and analysis, as well as recommendations of

administrative and legislative changes necessary to improve the performance of the retirement systems, and a listing of the expenses of the Commission. The reports presented by NEPC cover the comparative performance reporting and the actuarial valuation, and are placed on the website for the Pension Commission, but a new website page needs to be developed that adds the current contract and administrative expenses. Commissioner Trost made a motion that this information be published on the website, a second from Commissioner Estus. All were in favor.

5. Review of Annual Contract and Administrative Expenditures for FY15 and Projected FY16 – Commissioner Trost

According to a report provided to the Commission by Commissioner Trost, the Commission budgeted up to \$156,209 for expenses in FY 15 and up to \$132,000 for expenses in FY 16. Commissioner Estus noted that the Commission's expenses will be less in FY 16 than in FY 15.

Commissioner Trost asked that an annual report containing itemized listing of the administrative expenses of the Commission and the apportionment to the state's plans be published each fiscal year, presented to the Commission at its first regular meeting after the start of the next fiscal year and be placed on the website.

After some discussion, Commission Trost made a motion for the report, Commission Jones second the motion, with all approving.

6. Legislative Update – Representative Randy McDaniel

Representative Randy McDaniel was asked to attend the pension meeting to discuss bills presented during the Legislative Session.

HB 1052 was passed stemming from a lawsuit regarding legislators serving on the commission. This bill modifies the legislative members of the Pension Commission to be nonvoting and broadening the experience of the two Governor appointees.

HB 1376 made modification to OPERS by establishing a defined contribution system for those who become employed in a full-time position and defines who will not be under this plan. The modification will become effective November 1, 2015.

The majority of the Bills were regarding changes in the IRS law. After discussion by the Commission and those attending, Representative McDaniel was thanked for presenting this information to the Commission.

7. 3rd Qtr. FY Investment Performance Analysis and Public Fund Analysis – Don Stracke - NEPC

The meeting was turned over to Don Stracke of NEPC.

The first quarter estimate of GDP growth is at a weak +0.2%. Unemployment fell to 5.5% from 5.8%, the Home Price Index increased slightly to 166.8 from fourth quarter levels and is at levels higher than pre-financial crisis levels. Rolling 12-month adjusted CPI decreased to -0.1% from 0.8% and the capacity utilization declined to 77.1% in March.

Fed funds rate remains at 0.25%, with the 10-year Treasury Yield at 1.94%. The Fed balance sheet declined slightly in the first quarter, while the ECB balance increased. S&P valuations increased in March, remaining above the 10-year and long-term averages. The U.S. dollar continues to strengthen.

U.S. equities advanced in the first quarter; small cap stocks outperformed large cap, with Russell 2000 returning 4.3% and S&P returning 1.0%; International equities outperformed U.S. markets during the quarter. New private equity commitments totaled \$83.1 billion; buyout and growth equity fund deal volume in both the U.S. and Europe continue to decelerate; venture capital raised \$11.8 billion. Energy funds raised \$3.2 billion; Asian private equity commitments slowed to total 8% of total funds raised, down from 10%; European commitments comprised 14% of all new PE commitments.

As yields fell amid declining inflation and monetary easing, global sovereign debt gained; Treasury Inflation Protected Securities returned 1.4%; Barclays mortgage-backed securities benefitted from a decrease in mortgage rates; Investment grade credit spreads continues to widen; High yield bonds returned 2.5%; Emerging markets debt continues to slow in local currency posting.

Oil prices stabilized in the quarter; 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; Long-term commodity prices driven by growing emerging market demand; 45% increase in housing starts forecasted.

Commodities continued losing streak for the third straight quarter; within U.S. core real estate, strong fundamentals continue to be story with attractive income spreads; U.S. REITs posted 4.0% return; 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.

Market value of the seven systems is \$28,896 billion, up 7.5% for 2014. Teachers is up 8.2% for the year with a market value of \$14,407 billion with the next highest plan, OPERS, up 7.9%, with a market value of \$8,711 billion.

Public funds are becoming more confident to address retirement trends and issues and are becoming more cost effective. Funds continue to tighten benefits, assumptions and governance; they are currently experiencing healthy 1-year, 3-year, 5-year and 20-year returns. Funds experience and increase in average funded level. Income used to fund pension programs generally comes from three sources: member contributions, employer contributions and investment returns.

Discussion followed by the Commission and NEPC regarding the Investment Performance and Public Fund Analysis.

8. Adjournment

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

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator