

OKLAHOMA STATE PENSION COMMISSION
Minutes
November 30, 2016

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on November 30, 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; Commissioner Gary Jones – State Auditor; Commissioner Lawrence – Governor Appointee; Commissioner Northrup – Designee for Commissioner Doerflinger.

Others: Ruth Ann Chicoine – Administrator; Don Stracke and Alan Martin - NEPC; Joe Fox and Brad Tillburg – Public Employees Retirement System; Steve Snyder and Jim Keesee – Oklahoma Police Public Retirement System; Andrew Messer and Tim Allen – Oklahoma State Treasurer; Tom Spencer and Julie Ezell – Oklahoma Teachers Retirement System; David Kinney – Oklahoma State Department of Ed; Shane Ashley – e-Capitol News; Tommy Chism – Oklahoma Retired Firefighter; and Dana Cramer ORFA.

2. Approval of Minutes dated August 24, 2016

A motion was made by Commissioner Jones to approve the minutes as presented, with a second by Commissioner Lawrence, all approving; minutes were adopted.

3. Investment Performance Analysis and Public Fund Report – Don Stracke and Alan Martin - NEPC

Chairman Miller turned the meeting over to Don Stracke and Alan Martin of NEPC to present the reports.

The State funds were up 3.5% or better, making it was a good quarter. The S&P was additional 2% even after the quarter ended. The US economy is performing well; the GDP growth was up 1.4%; retail sales are up 1.6% as compared to last year; corporate profits increased to 8.8% and remain elevated; the US trade deficit widened, ending August as the rate of change in imports increased to levels not seen since last September.

The unemployment rate increased 0.1% to 5.0% in the third quarter, but at a reasonable level; the Case-Shiller Home Price Index increased to 183.6 and is at levels higher than pre-financial levels; Fed fund rates remained unchanged at 0.5%; the Fed balance sheet decreased during the third quarter, while the European Central Bank balance sheet continued to increase. S&P valuations increased slightly, remaining above the 10-year and long-term averages.

The US equities posted modest gains in the third quarter, small cap stocks outperformed large cap stocks during the quarter, with the Russell 2000 Index returning 9.0% and the Russell 1000 returning 4.0%. International equities outperformed US markets, returning 6.9%; emerging markets returned 9.0% measured by the MSCI Emerging Markets Index. Private equity fundraising totaled \$71.7 billion; buyout and special situations fundraising totaled \$38 billion; Venture capital totaled \$11.7 billion; growth equity fundraising totaled \$7.2 billion.

The nominal yield curve flattened in the third quarter; the spread between two and 10-year rates decreased to 83 basis points; Barclays Long Duration Credit Index gained 2.26%; Long Treasuries lost -0.36% and investment grade US corporate debt gained 0.5%; emerging markets debt continued its rally.

The vast majority of performance is decided by how you've allocated the assets. Teachers' total equity is 57.5%, but OPERS is even higher at 68.0%. Real estate has a different performance characteristic than Hedge Funds and Commodities; real estate has been a great assets class the last 5-10 years doing almost as well as stocks.

The market value for the plans is over \$28 billion gaining 4.3% for the quarter, they rank in the 13th percentile for all plans, Teachers' is over half of that; six of the seven plans out-performed the median plan; the one-year number for the plans is 10.6%, above the assumed rate of return, but may not be sustainable. The 10-year number for the plans is below the assumed rate of return, but that includes the global financial crisis. In 2015, the 15-year numbers are lower, in the 83rd percentile, but there will always be periods the plans will underperform.

Public funds' needs will be higher than what the expected return will bring in there will be rate of return and funding issues. Remain vigilant when it comes to asset allocation. Market volatility, take a long-term investment perspective, and expect more sideways movement in equity markets, less of a bull run. More public funds are seeking advice on risk management and at the same time, fees are receiving more attention.

Public funds' elevated allocations to alternatives have remained steady over the past three years. Unlike their corporate fund counterparts, funding levels have little impact on asset allocation at public funds. Low expected returns are here to stay, fundamental economic drivers likely to persist over 5-7 year horizon. US equities face headwinds, but without major concerns. Global monetary policies and capital markets continue to diverge; monetary stimulus, though unlikely, could spark inflationary pressures. Emerging market fatigue tangible; low valuations cannot be ignored.

No further discussion by the Commission.

4. 2017 Meeting Dates – Chairman Miller

Chairman Miller asked for any discussion on the meeting dates for 2017. Dates were coordinated with Tobacco Investment to assure dates were acceptable. Commissioner Jones would like to move the June date so as to not interfere with a conference. The administrator will work with the Tobacco Trust administrator to find another date in June and the date will be amended with the Secretary of State's office for 2017. Commissioner Jones made the motion to approve the other three dates with a second by Commissioner Northrup to approve the 2017 meeting dates with amendment, all in favor.

5. Adjournment

Chairman Miller made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet February 22, 2017.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator