OKLAHOMA STATE PENSION COMMISSION
Minutes
February 20, 2013

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on February 20, 2013, at 9:00 a.m. at the Teachers Retirement System, 5th floor, Oliver Hodge Building, 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; Mr. John Estus – Designee for Preston L. Doerflinger, Office of Management and Enterprise Services; Mr. Lawrence and Mr. Lou Trost – Governor Appointees.

Others: Ruth Ann Chicoine – Administrator; Don Stracke and Mark Cintolo – NEPC; Tom Spencer and Brad Tillburg – Public Employees Retirement System; Regina Birchum – Office of the State Treasurer; Ginger Poplin – Law Enforcement Retirement System; Janice Buchanan – Office of the Oklahoma State Auditor and Inspector; James Wilbanks and Grant Soderberg – Oklahoma Teachers Retirement System; Duane Michael – Oklahoma State Firefighters Retirement System; Norman Cooper – OREA; Troy Dycus – Oklahoma State Firefighters; and Paul Pustmueller – Cavanal Hill.

2. Approval of Minutes dated November 14, 2012

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

3. Investment Performance Analysis and Actuarial Analysis – Don Stracke and Mark Cintolo - NEPC

The meeting was turned over to Don Stracke and Mark Cintolo of NEPC.

Very little change in economic environment, growth has continued at an even pace, no effect on unemployment. Markets have encouraged growth by flooding markets with liquidity and keeping interest rates low. Markets are recovering slowly as compared to previous recoveries.

Markets were up for the full year, most over 15%. For the quarter markets were flat. All plans have had a good return for the first six months of their fiscal year. For the five-year return, it would have been a problem to make the 7.5-8% assumed rate of return for the plans; the ten-year return places the plans making their assumed rate of return.

Markets did well in 2012 and their forward-looking expectations are lower after the 2012 market rally as macroeconomic themes continue to weight on the markets. There is a potential for macro shock in the near term with ongoing U.S. fiscal cliff negotiations, European misstep, China slow down or a Middle East conflict could send shocks across the markets. The global growth outlook remains constrained as the developed world lacks political will to truly address the debt burden.

The manager impact for Teachers show a strong result for the time period, positive for the quarter for all plans, mixed in the three and five-year period. The funds allocation impact is calculating how successful the policy was as compared to the average fund, for the quarter, the funds were about average, but for the three-to-five year period, they were down.

The total assets of the seven funds was $22,640 billion, all funds average performance was 1.9% for the 4th quarter or the 37th percentile, better than 63% of all plans. The ranks for the fund's 10-year numbers are small, better than 86% of all plans. A large amount of the returns is driven by Teachers, their results have been strong.

The total fund risk/return is at 9.4%, with a rank of 20, this is driven by Teachers. For the past three year risk return, the Sharpe ratio is a bit below average ranking in the 60th percentile. On a five year basis shows a similar story with good performance in the 26th percentile.

The funded status of the overall plans has declined since July 2011 valuations. Average asset return on the plans' market value was 1.4% for the fiscal year ending June 30, 2012. Major legislative actions from last year are now fully reflected in valuations. Teachers' plan remains the largest and most poorly funded of the seven plans.

Recent pension fund trends shows reducing long-term expected return of assets, there is a slower liability growth and increased use of alternative assets. Aggregate funded status of the plans declined since 2011. Law Enforcement changed several assumptions which resulted in lower accrued liabilities.

Major legislative changes last year helped to lower the value of liabilities and helped improve fund status, it is now fully reflected in the valuations. This included the removal of cost-of-living adjustments and some funds, the increase in retirement age. Funded status of the Oklahoma plans has consistently trailed the average public plan, but there has been some convergence in 2011 after legislative changes were implemented.

Recent public pension fund trends show that there is a reduction of long-term expected return on assets assumption, slower liability growth, and increased use of alternative assets. The median plan for return on assets is below 8%. There are benefit reductions and declining number of state and local government jobs.

Overall funded status for all funds was 64.9%. Justice and Judges are the highest funded at 95.7%, with the lowest being Teachers at 54.8%. Asset returns were positive, but below expectations. Liabilities grew by 4.3%.

The plans' assumptions are within a reasonable range. All plans employ entry age normal actuarial cost methods and have in place long-term amortization schedules to fund the Unfunded Accrued Liability. All plans employ similar actuarial asset valuation methods. Investment return assumptions are in line with other public funds, but have faced increased pressure lately.

In aggregate, the State's plans are 64.9% funded as of June 30, 2012. Several plans have taken steps to increase contribution rates to help fund liabilities. The plans' assumptions are within a reasonable range. Rating agencies continue to scrutinize states and municipalities for debt rating with pension plan health one item for review.

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

4. New Business

Regina Birchum of the Treasurer's office brought in two editorials that were written in support of pension administrative streamlining of the seven systems for the commissioners to read over at their leisure.

Discussion by the Commission and NEPC regarding streamlining the plans followed.

No other new business was brought forward at this time.

5. Adjournment

Treasurer Miller made a motion to adjourn; all in favor, the meeting was adjourned. The next regular commission meeting will meet June 26, 2013, at 9:00 a.m. at the Oklahoma State Capitol, Room 512A, Oklahoma City, OK.

*Respectfully Submitted:*________________________________
Ruth Ann Chicoine, Administrator