OKLAHOMA STATE PENSION COMMISSION
Minutes
February 12, 2014

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on February 12, 2014, at 9:00 a.m. at the Oklahoma History Center, 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; Vice-Chairman Doug Lawrence and Mr. Lou Trost – Governor Appointees.

Others: Ruth Ann Chicoine – Administrator; Don Stracke and Lynda Dennen – NEPC; Julie Ezell – AG Legal Counsel for Pension Commission; Joe Fox, Kristi Lee, and Brad Tillburg – Public Employees Retirement System; Joe Ezzell and James Dickson – Oklahoma Teachers Retirement System; Steve Snyder and Jimmy Keesee – Oklahoma Police Pension and Retirement System; Duane Michael – Oklahoma Firefighters Retirement System; Regina Birchum – Office of the State Treasurer; Norman Cooper – OREA; Dana Cramer – Oklahoma City Firefighters; Phil Ostrander – Oklahoma State Firefighters Association; Amanda Ewing – Oklahoma Education Association; Paul Pustmueller – BOK/Cavanal Hill; and Shawn Ashley – E Capitol.

2. Approval of Minutes dated November 13, 2013

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

3. 2nd Quarter 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.

GDP growth was revised upwards for the third quarter. Unemployment fell to 6.7% in December. Conference confidence rose to 78.1 in December. 12-month CPI increased to 1.5% at the end of December. Fed Funds rate remained at 0.25%, while the 10 year Treasury Yield finished at 3.03%. The Federal Reserve Bank balance sheet increased in 2013, while the European Central Bank balance sheet decreased. S&P valuations rose in December, remaining above the 10 year and long-term averages.

For the year, performance was driven by the extremely strong performance of US equities; total fund absolute performance exceeded targets; Long-term results should look better on a peer-relative, benchmark-relative, and risk-adjusted basis. Diversification has not helped in 2013, but a risk-balanced approach to investing still makes sense.

Global equities were higher with the Russell 2000 index gaining 38.8% and the S&P 500 at 32.4%. Sectors tied to the improving economy outperformed; defensive sectors lagged. Small cap stock outperformed large cap stocks; global equities gained 22.8%; and emerging markets trailed with losses of 2.6%.
The asset allocation summary in the report shows OPERS having changed their target allocation to be compliant, but have large equity exposure; Teachers large cap is at 24.7%, total fixed is at

20.6%; Firefighters' equity exposure is at 69.3%, over their target; all plans not doing as well as Teachers.

The total assets of all plans are $26.6 billion, and continuing to grow with a 6.2% return for the 4th quarter, well ahead of actuarial results; for one year, the plans are up 20%. On a three month basis, six of the seven plans are above median; for the full year, all seven funds are at median.

Funded status of the overall plans increased since July 2012 valuations; aggregate funded status was 66.5% vs.64.9%. Average asset return on plans' market value was 13.9% for the fiscal year ending June 30, 2013. The Teachers' plan remains the largest, yet most poorly funded of the seven plans.

Strong markets led to higher than expected asset returns; total liabilities grew by 2.8%. Liability gains from Teachers plan payroll increasing less than assumed, also helping boost the plan's funded status. Oklahoma plans' aggregate funded status has consistently trailed the funded status of the average public plan. After legislative changes implemented regarding COLAs, there has been some convergence.

Due to 2008-09 losses, actuarial investment returns have fallen short of expected return assumptions the last few years; the losses were fully recognized as of June 30, 2013, fiscal 2014 actuarial value will see more gains.

For fiscal year ending 2013, GASB recommended contributions to the Oklahoma pension plans was $1.171 billion or 18.6% of total payroll. Fiscal year ending 2014, GASB recommended contribution was $1.170 billion and 18.6% of payroll.

The plans' assumptions are within a reasonable range, employ entry age normal actuarial cost methods, and have in place long-term amortizations schedules to fund the unfunded accrued liability. The plans employ similar actuarial asset valuation methods, gains and losses are smoothed over five years.

Investment return assumptions are in line with other public funds, but have faced increased pressure. In aggregate, the State's plans are 66.5% funded as of June 30, 2013. Strong asset performance in 2013 fiscal year helped boost funded status. Plans continue to take steps to increase contribution rates to help fund liabilities.

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

A list of House and Senate bills was provided to the Commission, by Senator Brinkley, through Chairman Miller, that will be heard during this legislative session.

Discussion by the Commission regarding the bills in legislation, followed.

4. <u>Adjournment</u>

Treasurer Miller made a motion to adjourn; all in favor, meeting was adjourned. The next regular commission meeting will meet June 25, 2014, at 9:00 a.m. at the Oklahoma State Capitol, Room 511A, Oklahoma City, OK.

*Respectfully Submitted:*______________________________
Ruth Ann Chicoine, Administrator