OKLAHOMA STATE PENSION COMMISSION
Minutes
June 25, 2014

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on June 25, 2014, 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; Gary Jones – State Auditor; Senator Rick Brinkley; Vice-Chairman Doug Lawrence and Mr. Lou Trost – Governor Appointees.

Others: Ruth Ann Chicoine – Administrator; Dan LeBeau - NEPC; Kim Heaton – AG Legal Counsel for Pension Commission; Representative Randy McDaniel; Kristi Ice and Brad Tillburg – Public Employees Retirement System; Duane Michael – Oklahoma Firefighters Retirement System; Regina Birchum – Office of the State Treasurer; Norman Cooper – OREA; Dana Cramer – Oklahoma City Firefighters; Troy Dycus – Oklahoma State Firefighters Association; Melinda Streich – Oklahoma Department of Wildlife; Bill Hallman – Oklahoma City Fire Department, Retired; Paul Pustmueller – BOK/Cavanal Hill; and Shawn Ashley – E Capitol; Kris Masterman – concerned citizen.

2. Approval of Minutes dated February 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. Legislative Update – Senator Rick Brinkley

The legislative update was turned over to Senator Brinkley with Representative McDaniel joining him.

SB212 requires monies be refunded to participating municipalities with a year should excess contribution be made to OPPRS. SB1710 and SB2024 are IRS compliance bills done yearly for the systems. HB2740 shall appoint a member to the OTRS Board who shall be a nonvoting member of the Board.

HB2630 takes new OPERS employees after November 1, 2014, and puts them in a defined contribution plan. SB2120 clarifies the status of certain Department of Rehabilitation Services employees, as well as County employees in the OPERS defined contribution system.

Representative McDaniel pointed out that there will be enough money going into the old system to pay existing promises that have been made than now, with the new DC system going into effect next year. The matching schedule needs to be looked at in the future, it has been set up now with a minimum of 3% and 7% maximum.

Senator Brinkley stated that the younger generation will have several careers in their lifespan; having a DC plan will be better for them so they are able to transfer with them when they change jobs. There are many people in OPERS that are in it because possibly a legislator got them into it when a bill was passed. It is a hodgepodge of employees and what they pay could be more or less than what the majority of state employees pay in.

Discussion by the Commission regarding the Legislative Update, followed.

4. Renewal of Consultant Contract FY 2014-2015

There was no discussion of the routine annual renewal of the consultant contract for FY2014-2015. This is the final renewal of the full five-year contract awarded in 2010. Motion was made by Vice-Chairman Lawrence with a second by Commissioner Jones; all in favor, motion was passed.

5. 3rd Qtr. FY Investment Performance Analysis and Public Funds Trends – Dan LeBeau - NEPC

The meeting was turned over to Dan LeBeau of NEPC.

GDP growth was revised downward for the first quarter, retail sales fell to a 1.3% ear-over-year growth rate in February. Inventory-to-sales ratio remained flat; corporate profits remained high at 12.7%; and the trade deficit increased in January. Unemployment rose to 6.7% in February, consumer confidence fell to 82.3% in December, and 12 month CPI decreased to 1.1% at the end of February. Fed funds rate remained at 0.25% while 10 year Treasury Yields finished at 2.72%. The Federal Reserve Bank balance sheet increased early 2014 while European Central Bank decreased. S&P valuations rose in March, remaining above the 10 year and long term averages.

First quarter market review shows the S&P 500 Index rising 1.8%, Russell 2000 gaining 1.1%. International equities lagged US markets, Europe led-non-US equities recorded gains, with stocks returning approximately 14% so far this year. Emerging markets ended the quarter down following Russia's takeover of Crimea, China continued an economic slowdown, while Indonesia gained 21.3%.

Bond markets rallied as investors got into higher quality assets. The 10-year US Treasury yield decreased 31 basis points during the first quarter. US Credit Index gained 2.9% and the Long Duration Credit Index returned 6.3%. Investment grade credit spreads narrowed to 103 basis points, while the yield spread on high yield bonds over Treasuries fell to a record low of 3.58%. Credit Suisse Leveraged Loan Index gained 1.3% and local currency debt gained 1.9%.

Commodities had a 7.2% increase in the first quarter; fears of a grain shortage made returns of 8.4% in the grain sector. Heating oil rallied in the quarter because of unseasonably cold weather, but retreated in March. Precious metal declined $4 as copper prices fell.

Asset allocations bottom line has resulted in higher volatility, but the plans are being rewarded with higher numbers in returns. The plans are broken down differently, with Teachers allocation is diversified in large, mid and small-cap versus OPERS in large and small-cap allocation, to point out difference in the numbers.

Manager impact of the plans have very strong performance from a manager value standpoint; the allocation impact is the difference of the weights of asset classes relative to the policy index, Teachers specifically added 2% of value by not being invested in their policy targets. There was a strong performance in the public defined benefit universe, which has a quarter ranking in the six percentile, the top of the universe across the board.

The Public Funds Trends report chart on page two show the average funded ratio starting back in 2001 at 100.9%, and since the funding ratio has gone down to 73.5. In the 90's, the internet boom was largely responsible for the increase in funds, but yet once the funds went up, the liabilities went up with more employees being hired, the ARC not being paid in or paid in partially, and people retiring sooner than expected because of funding. The ARC was being paid out approximately 90% in early 2000, but payout of the ARC is now down around 60%. Contributions into plans since 2008 have remained flat, while benefits increased by more than what is coming into the plan.

Total U.S. institutional assets appreciated at 11% this year and are above pre-crisis levels. Asset allocation continues to be different between investor types, reflecting different needs and objectives. Public funds are responding to funding shortfalls by significantly increasing allocations to alternative investments. The larger public plans rely more heavily on alternatives and international equity than their smaller counterparts.

Public funds will continue to shift portfolios towards higher return seeking categories including alternatives and emerging markets. Public funds tend to employ passive strategies within equity portfolios more frequently than other institutional investor types. Public pension plans and endowments have been most active in hiring of managers. Active U.S. equity fees remain unchanged despite shrinking allocations. Shifts to specialty products are driving average fixed income fee levels upwards.

Discussion by the Commission and NEPC regarding the Investment Performance and Public Funds Trends report, followed.

6. RFP Process – Adopt Procedures and Timeline for Development and Process of RFP

Chairman Miller opened the discussion as to how to proceed with the RFP. A motion was made by Chairman Trost to have Vice-Chairman Lawrence to head up working on updating the RFP and have it ready for approval at the August meeting; all in approval.

7. Adjournment

Treasurer Miller made a motion to adjourn; all in favor, meeting was adjourned. The next regular commission meeting will meet August 20, 2014, at 9:00 a.m. at the Oklahoma State Capitol, Room 511A, Oklahoma City, OK.

*Respectfully Submitted:*________________________________
Ruth Ann Chicoine, Administrator