

**OKLAHOMA STATE PENSION COMMISSION**  
**Minutes**  
**August 19, 2015**

**1. Call to Order**

A meeting of the Oklahoma State Pension Commission convened on August 9, at 9:00 a.m. at the Oklahoma State Capitol, Room 419C, 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 welcomed the new Senate member, Senator Jason Smalley, and called the meeting to order.

**Members Present:** Chairman Ken Miller – State Treasurer; Vice-Chairman, Lou Trost, Governor Appointee; Senator Jason Smalley – Senate Appointee; Gary Jones – State Auditor; John Estus – Designee for Preston Doerflinger, Director, Office of State Finance & Secretary of Finance & Revenue.

**Others:** Ruth Ann Chicoine – Administrator; Don Stracke - NEPC; Lynne Martin-Diehl – AG Legal Counsel for the Pension Commission; Tom Spencer and Melissa Kempkes – Oklahoma Teachers 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; Ada Hill – OREA; Paul Pustmueller – BOK/Cavanal Hill; Kris Matermur – KOPI; and Dana Cramer – Oklahoma City retired firefighters.

**2. Approval of Minutes dated June 4, 2015**

A motion was made by Vice-Chairman Trost to approve the minutes as presented. Commissioner Estus second the motion with all approving.

**3. Investment Performance Analysis and Fee Analysis – Don Stracke – NEPC**

The meeting was turned over to Don Stracke of NEPC for presentation of the reports.

First quarter GDP growth goes negative to 0.2%. Employment rate fell to 5.3%; the Home Price Index increased and is at higher levels than of pre-financial crisis. CPI increased to +0.2% at the end of March; Fed Funds rate remains at 0.25% and 10-year Treasury Yield finished at 2.4%. S&P valuations increased in June remaining above the 10 averages; the U.S. dollar continues to strengthen as the Fed ends its quantitative easing program.

U.S. equities posted modest gains; small cap stocks outperformed large cap, with the Russell 2000 returning 0.4%; International equities outperformed U.S. markets. Private equity commitments totaled \$101 billion; buyout and growth equity funds raised \$57 billion; venture capital raised \$24.6 billion; energy funds raised \$30 billion; Asian private equity commitments slowed to total 6% of funds raised down from 20% in 2014; European commitments comprised 17% of all new PE commitments.

The yield curve steepened amid global financial instability in the Eurozone; the spread between two and 10-year rates increased to 176 basis points from 138 basis points. Treasury Inflation-Protected Securities returned -1.1% during the quarter; Barclays Long Duration Credit Index lost -7.3%; Long Treasuries fell -8.3% and investment-grade corporate debt lost 2.9%. The Barclays 1-3 year Government/Credit Index returned 0.1%, emerging markets debt continued to slow in local and external currency.

Oil prices were trending lower; OPEC and Saudi Arabia have indicated a willingness to allow lower oil prices to persist; Long term commodity prices driven by growing emerging market demand; 45% increase in housing starts forecasted. Commodities broke three quarter losing streak with the Bloomberg Commodity Index posting a 4.7% gain; U.S core real estate continues to be the story with attractive income spreads relative to interest rates. U.S. REITs posted a weak quarter with a -9.9% return; Europe is viewed as the best place for a marginal dollar of non-core real estate investment.

U.S. equities face headwinds, but without major concerns; recommend an overweight exposure to developed market equities, investors maintain a benchmark neutral weight in emerging market equities, investors to shift from benchmark-focused global bond strategies to U.S. duration exposures, and encourage investors to be patient.

Market value is \$28.768 billion, up from a year ago; Teachers retirement makes up 50% of the assets; what happens to Teachers will drive what happens to the other systems. A quick look at Firefighters has 1 5.9% return for the year, with an allocation index rank of 35 and a policy index of 60. All funds have had a positive result for the quarter and year.

There are three general types of fee structures: Flat Fee, Tier of Asset-Based Fee where the more active the manager is, the lower the fee is, and Performance-Based Fee. Private equity fees are typically much higher than public market assets. Hedge fund fees are high compared to traditional managers. Competitive pressures are leading to lower fees. Public entities are facing greater political pressures on fees. Total fees for CY2014 were \$86.9 million or 0.31% of the funds; the percentage points for 2013 were 0.26%, not 0.31%.

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

#### **4. Solicitation of Recommendations from Commissioners to Improve the Performance of State Retirement Systems – Vice-Chairman Trost**

Commissioner Trost reported that the Society of Actuaries recently updated its mortality tables for the first time since 2000 to reflect the longer life spans of today's retirees. He spoke with Lynda Dennen of NEPC, an actuary, who handles the annual actuarial reports for the Commission. She said that the changes are now in effect, but that the individual actuaries for the pension systems could estimate their own mortality rate assumptions. Tom Spencer, Executive Director of Teachers, was asked to speak to the commission concerning the Oklahoma pension systems, and how they are handling this important change.

Mr. Spencer stated that all of the Oklahoma pension systems have nationally recognized actuarial firms, tops in the field, and they watch the mortality tables at all times. Teachers' firm did a study in May, which is done every three to five years for the plan, and they look at the mortality experience, retirement rates, to recommend to the plans changing of assumptions, if needed. Teachers' adopted a mortality table more in line with the population. He added the unfunded liabilities of the Oklahoma pension systems will most likely be increased when the updated mortality rates are implemented.

Discussion followed by the Commission regarding mortality tables.

Other recommendation was that the commission call upon state and legislative leaders to oppose any proposal to reduce the dedicated state taxes, state revenue and contributions levels for any individual state sponsored retirement system until that system is at or near a 100% funded ratio from an actuarial basis. Commissioner Trost would like to see have some type of request go to the legislature on this subject.

Commissioner Jones stated that the pension obligations, because of GASB, are going to start going to the employer, which is causing problems with schools and municipalities, because this

has normally fallen on the state. Because of GASB, this is being pushed down to the schools and cities. This is debt they don't own or cannot pay. Another recommendation should be made to the legislature regarding where the debt goes to the entity that owes, which is the state.

Discussion followed by the Commission regarding a formal document to go to the legislators, after the November meeting.

**5. Commission Administrative Issues – Vice-Chairman Trost**

Chairman Trost updated the commission on its annual expenses for the consultant and administrative costs for the fiscal years ending June 30, 2015, and how it is proportioned out to the various systems. The report was prepared by the Commission's Administrator Ruth Ann Chicoine. There was a motion by Chairman Miller to accept the updated information on expenses, with a second by Commissioner Estus, to add this information to the pension's website; all in favor to accept the report and add the information to the website. Ms. Chicoine was thanked for her work in putting this report together and for her overall fine job as Administrator.

Commissioner Trost has asked NEPC to give a report on the performance of the plans' custodian banks; Don Stracke recommends that NEPC survey custodian banks on a quarterly or annual basis to test safety and security of short-term funds and to measure the quality of the services the funds are receiving by the banks. Legal counsel for the commission will coordinate with NEPC to follow state statutes.

Commissioner Trost updated the issue of membership on the commission, with new legislation on who can serve from the House and Senate. Senator Smalley was appointed by the President Pro-Tempore to serve, with an appointment by the Speaker of the House to come at a later date.

Discussion followed by the Commission regarding the various administrative issues.

**6. Adjournment**

Treasurer Miller made a motion to adjourn; all in favor, meeting was adjourned. The next regular commission meeting will meet in November at the Oklahoma Regents for Higher Education, Oklahoma City, OK.

*Respectfully Submitted:* \_\_\_\_\_  
Ruth Ann Chicoine, Administrator