OKLAHOMA STATE PENSION COMMISSION
Minutes
November 18, 2015

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on November 18, at 9:00 a.m. at the Oklahoma Regents for Higher Ed headquarters, 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; Vice-Chairman, Lou Trost - Governor Appointee; Gary Jones – State Auditor; Doug Lawrence – Governor Appointee; John Estus – Designee for Preston Doerflinger, Director, Office of State Finance & Secretary of Finance & Revenue.

Others: Ruth Ann Chicoine – Administrator; Don Stracke - NEPC; Kim Heaton – AG Legal Counsel for the Pension Commission; Joe Fox and Brad Tillburg – Public Employees Retirement System; Steve Snyder – Oklahoma Police Retirement System; Ginger Poplin – Oklahoma Law Enforcement Retirement System; Bob Jones – Oklahoma Firefighters Retirement System; Andrew Messer and Tim Allen – Office of the State Treasurer; Ada Hill – OREA; and Paul Pustmueller – BOK/Cavanal Hill; Kris Matermur – KOP.

2. Approval of Minutes dated August 19, 2015

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

3. Investment Performance Analysis and Public Fund Activities – Don Stracke – NEPC

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

The third quarter GDP growth rate went up a modest 1.5%; unemployment fell to 5.1%; the home price index increased and is at levels higher than pre-financial crisis levels. The CI decreased to 0.02%; Fed funds rate remains at 0.25%; S&P valuations decreased in September; the U.S. dollar continues its strength against major currencies.

U.S. economy show strength relative to other developed markets; global monetary stimulus flowing through markets; developed world inflation is low. U.S. equities posted sharp losses in the third quarter as global volatility up; small cap stocks and international equities underperformed.

Private equity commitments totaled $74.6 billion; buyout and growth equity funds raised $45.3 billion; venture capital raised $10 billion; energy funds raised $7.8 billion. The yield curve flattened with long duration yields dropping 20-30 basis points. Treasury Inflation-protected securities returned -0.9%; Barclays long duration credit index gained 0.5%; Long treasuries gained 5.1%; emerging markets debt continued to slow.

OPEC and Saudi Arabia have indicated a willingness to allow lower oil prices to persist in efforts to reduce marginal supply; commodities retracted -14.5% with the Bloomberg Commodity Index; U.S. REITs posted modest gains with a 2.2% return; Europe is viewed as the best place for a marginal dollar of non-core real estate investment.

MSCI Index dominated by Asia; debt indices concentrated in Latin/South America with exposure to balance of payments challenged countries; Rick-return of U.S. high yield is attractive relative to U.S. equities. Recommend an overweight exposure to developed market equities and at minimum a market weight exposure to EM equities; inflation expectations at historical lows.

Asset allocation for the plans shows no major changes in asset class exposure. The attribution analysis over the five-year period shows every manager for the plans have added value to their plans from their active manager decisions.

The total market value of the systems for the third quarter is $26.7billion, with a rank of 95, dropping 6.6% for the three month period, underperforming the average public fund. Teachers is valued at $13.1 billion with a rank of 99, OPERS market value was $8 billion with a rank of 84; the systems had a difficult performance period, but the five and 10 year numbers have the plans ahead of the rate of return of all plans.

Public Fund Trends annual survey – 61% of funds are members of NCPERS, 40% of funds serve police and fire employees, with a 6% increase in the number of funds serving educational entities. There has been an increase in confidence in the last few years on satisfaction of readiness to address retirement trends and issues. The average expenses of most equity funds average 74 basis points. The average investment assumption for funds is 7.7%, up 0.1% from 2013. The average smoothing period is 5.2 years, down from 5.7 years on 2013.

The majority of funds offer a COLA of 3% or higher. Funds with members who are not eligible for Social Security offer higher cost of living adjustments. Funds with members who are Social Security eligible report a slightly higher return than non Social Security eligible funds. The average funded level is a solid 71.5%, slightly above 70.5 in 2013, because of strong market returns in 2013. Pension funds are designed to pay off liabilities over a period of time to ensure long-term stability.

Discussion followed by the Commission and NEPC regarding the Investment Performance and Public Fund Trends.

4. <u>Special Funding – Commissioner Jones</u>

Commissioner Jones spoke on the impact GASB 68 would have on the systems, not taking into account school systems and cities now have a debt that they do not really owe and trying to explain to the citizens of their cities. Commissioner Jones would like to propose sending a recommendation to the legislature to adopt a special funding situation that would reflect where the debt goes.

Discussion followed by the Commission regarding a formal document to go to the legislators, after the November meeting. All were in favor of adopting the motion.

5. **<u>Proposed Resolution of the Commission to Oppose Reducing Contribution Levels to any State Retirement Plan, Until the Affected Plan is at or Near 100% Funded Ratio, on an Actuarial Valuation Basis – Vice-Chairman Trost</u>**

Vice-Chairman Trost proposed a resolution that calls on the state Executive and Legislative leaders to oppose any proposal to reduce contribution levels below the actuarially required contribution for any individual state-sponsored retirement system, and, from an actuarial basis, until an individual retirement system is at or near a 100% funded ratio. He thanked Andrew Messer of the State Treasurer's office and Tom Spencer of the Teachers Pension System for their help in drafting the proposed resolution.

During discussion concerning the resolution, Commissioner Lawrence recommended that the benchmark at or near 100% funded ratio, be reduced to a 90% funded ratio. Seeing that, the other Commissioners concurred to this reduction. Vice-Chairman Trost agreed to the change, but said that he still held the belief that for the benefit of all of the state sponsored pension plans, 100% would have been best. A motion was made by Commissioner Jones to adopt the proposal with the change in the funding ratio, Commissioner Lawrence making the second. All were in favor of adopting the motion.

6. Proposed Statutory Amendment from the Commission to Change the Reporting Schedule of the Pension Systems Concerning Custodian Banks or Trusts – Also Revises the Types of Information from the Custodians the Commission will Require in the Future – Reference to the Office of the State Treasurer in Paragraph 2b of the Statute, will be removed – Vice Chairman Trost

Vice-Chairman Trost proposed amendments to update 74 O.S. 942. A markup was presented to the Commission members showing the proposal. The proposed statutory amendments update the statute which relates to the reporting of certain information concerning custodian banks and trust companies by the state-sponsored retirement systems to the Oklahoma State Pension Commission.

Discussion followed by the Commission regarding the proposed changes. A motion was made by Commissioner Jones to recommend to the Governor and Legislative leaders to adopt recommended changes. Vice-Commissioner Trost made the second. All approved.

7. Approval of 2016 Meeting Dates

The proposed meeting dates for 2016 were agreed upon. A motion by Commissioner Jones and a second by Commissioner Estus to accept the meeting dates; all in agreement, motion to approve.

8. Adjournment

Treasurer Miller made a motion to adjourn; all in favor, meeting was adjourned. The next regular commission meeting will meet February 24, 2016.

Respectfully Submitted: Ruth A. Chicoine
Ruth Ann Chicoine, Administrator