OKLAHOMA STATE PENSION COMMISSION
Minutes
February 24, 2016

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on February 24, 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; and Doug Lawrence – Governor Appointee.

Others: Ruth Ann Chicoine – Administrator; Anthony Ferrara and Lynda Dennen - NEPC; Jan Preslar – AG Legal Counsel for the Pension Commission; Joe Fox and Brad Tillburg – Public Employees 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; Terry Ingmire – OREA; Paul Pustmueller – BOK/Cavanal Hill; Carlos Johnson – BKD, LLP; and Diane Lewis.

2. Approval of Minutes dated November 18, 2015

A motion was made by Commissioner Jones to approve the minutes as presented, with a second by Vice-Chairman Trost, all approving; minutes were adopted.

3. Investment Performance Analysis and Actuarial Analysis – Anthony Ferrara and Lynda Dennen - NEPC

The meeting was turned over to Lynda Dennen of NEPC for her presentation of the Actuarial Analysis and Anthony Ferrara with the Investment Performance.

Funded status of the overall plans has increased since July 2014 valuations. The average public pension plan was 71.8% funded in FY 2014. Oklahoma plans' aggregate funded status had consistently trailed the funded status of the average public plan. Average asset return on the plans' market value was 3.1% for the fiscal year ending June 30, 2015. Teachers' remains the largest and one of the two lesser funded of the seven plans.

Average rate of return for the fiscal year ending June 20, 2015, was 11.9%. Actuarial Value tends to lag the Market Value as gains and losses are smoothed in over five years. Teachers' has the highest assumed return of all Oklahoma plans at 8.0%. Fiscal year ending 2015, the recommended contribution to the Oklahoma pension plans was $605 million, or 9.0% of total payroll. For fiscal year ending 2016, the recommended contribution remains 9.0% of payroll, on $2 million higher than last year.

There were no new legislative changes affecting the plans enacted in fiscal year ending June 30, 2015. Oklahoma OPERS created a defined contribution plan for most new employees beginning November 1, 2015.

Investment return assumptions are in line with other public funds, but Teachers' at 8.0% may face pressure to be lowered. All plans have in place long-term amortization schedules to fund the unfunded accrued liability; they employ similar actuarial asset valuation methods, where gains and losses are smoothed over five years. All plans' mortality assumptions use the RP-2000 tables, but actuaries will recommend if newer mortality assumptions are suitable for the plans' demographics.

GASB 67 was first implemented for the fiscal year ending June 30, 2014, which fiscal year 2015, all plans at the time of the presentation were not finalized and will be presented when available. As of July 1, 2014, overall funded status of the plans was 81.2% under GASB 67 vs. 72.5% using actuarial value of assets. For fiscal year 2014, each plan's actuary determined all the plans' projected benefits would be covered by projected assets, leaving discount rates unchanged.

In aggregate, the State's plans are 76.0% funded as of June 30, 2015. Strong asset performance continues to flow through the actuarial value of assets. The plans' assumptions are within reasonable range. GASB 67 reporting was required for fiscal 2014 and GASB 68 reporting is required for fiscal 2015.

Fourth quarter GDP growth rate was a modest 0.7%. The unemployment rate fell to 5.0% in the 4th quarter as compared to 5.6% a year earlier. The Home Price Index increased slightly and is at levels higher than that of pre-financial crisis levels. The 12-month adjusted CPI increased to 0.6% at the end of September. Fed Funds rate was raised from 0.50% from 0.25%, the 10-year Treasury Yield finished at 2.2%, but flat from the 3rd quarter. The Fed balance sheet remained with little change, while the European Central Bank balance sheet continued to increase. S&P valuations decreased in December remaining above the 10-year and long-term averages. The U.S. Dollar continued to strengthen against major currencies.

U.S. equities posted gains; Small cap stocks underperformed large cap during the quarter, with the Russell 2000 Index returning 3.6%. International equities underperformed U.S. markets during the quarter. New private equity commitments totaled $312 billion in CY15; buyout and special situations fundraising was down over 20%; energy funds raised $38.6 billion or 12% of capital raised in 2015; Asian private equity commitments slowed to 8% of total funds raised; European commitments comprised 23% of all new PE commitments.

In Fixed Income, the yield curve shifted up with intermediate yields increasing 21-29 basis points and long duration yields increasing 14 basis points. The spread between two and 10-year rates decreased to 121 basis points from 141 basis points. The Barclays Long Duration Credit Index lost -0.67% as the long end of the curve ended the quarter 14 basis points higher. Emerging markets debt continued to slow in local currency and was modestly positive in U.S. denominated terms.

Massive energy market dislocation; OPEC and Saudi Arabia have indicated a willingness to allow lower oil prices to persist in efforts to cement market share and reduce marginal supply. Select infrastructure opportunities are attractive; there is belief in the long-term demand drivers in agriculture may provide attractive entry point; timber opportunity set limited, but warrants further review.

Commodities retracted significantly with the Bloomberg Commodity Index posting at -10.5%; NEPC is neutral on core real estate in the U.S., but strong fundamentals continue to be the story along with attractive income spreads relative to interest rates; non-core real estate investment environment is the U.S. is normalizing with select areas remaining attractive; Europe is viewed as the best place for a marginal dollar of non-core real estate investment.

Asset allocation shows that the plans' key policy items are well within their range, except for a couple, Law in large cap and Firefighters in long-short equity. The total fund performance has been good, with Firefighters doing well in 2015 with equity allocation as compared to the other plans, with strong returns.

4. Adjournment

Treasurer Miller made a motion to adjourn; all in favor, meeting was adjourned. The next regular commission meeting will meet June 8, 2016.

*Respectfully Submitted:*________________________________
Ruth Ann Chicoine, Administrator