OKLAHOMA STATE PENSION COMMISSION
Minutes
June 8, 2016

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on June 8, 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. Vice-Chairman Trost called the meeting to order.

Members Present: Vice-Chairman, Lou Trost - Governor Appointee; Gary Jones – State Auditor; John Estus – Designee for Commissioner Doerflinger; Andrew Messer – Designee for State Treasurer Ken Miller; and Doug Lawrence – Governor Appointee.

Others: Ruth Ann Chicoine – Administrator; Don Stracke (by phone) - NEPC; Joe Fox and Brad Tillburg – Public Employees Retirement System; Steve Snyder – Oklahoma Police Public Retirement System; Tom Spencer and Kirk Stebbins – Oklahoma Teachers Retirement System; Norman Cooper – OREA; Paul Pustmueller – BOK/Cavanal Hill; Shane Ashley – e-Capitol News; Melinda Streich – Oklahoma Wildlife Retirement System; Tommy Chism – Oklahoma Retired Firefighter; and Diane Lewis. A representative of the Attorney General's office was not in attendance.

2. Approval of Minutes dated February 24, 2016

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

3. Annual Contract and Administrative Expenditures for FY17 – Vice-Chairman Trost

There was a short discussion of the routine annual renewal of the consultant contract for FY17. This is the second renewal of the full five-year contract awarded in 2015. Contract amount is $100,000 plus up to $10,000 in expenses, administrative costs stay at $22,000. A motion was made by Commissioner Jones with a second by Commissioner Lawrence to accept the contract; Commissioner Estus abstained, all others were in favor, motion passed.

4. Legislative Update – Vice-Chairman Trost

Senator Smalley provided a handout for Vice-Chairman Trost of the pension bills that came up during legislation and the last action of each bill.

SB1040 amended 47 O.S. §§ 2-307-2-307.7 modifying non-Roth funds used to purchase service; approved by the Governor April 5, 2016.

HB2258 amended 74 O.S. 2011, § 942, modifying provisions related to reports and analysis of certain financial performance; this was approved by the Governor on April 12, 2016.

HB2263, Teacher Retirement, technical corrections and improvements; approved by the Governor on April 21, 2016.

HB2264, Retirement Freedom Act, only affects the newly enacted defined contribution system of OPERS; approved by the Governor May 9, 2016.

HB2273, Police Pension, conferees granted, need to restore title, enacting and emergency clause.

HB2247, Teacher Support Act, did not get heard on the floor, bill is dead.

The report was accepted by conscientious of the Commission. No further discussion.

5. Investment Performance Analysis and 2016 Low Return Environment Report – Don Stracke NEPC

Vice-Chairman Trost turned the meeting over to Don Stracke of NEPC who presented the reports via conference call, after flights stranded him in Denver.

Fourth Quarter GDP growth rate was a modest 1.4%; unemployment rate remained unchanged at 5.0% in the first quarter; the Case-Shiller Home Price Index slightly increased from 175.3 to 175.4, higher than pre-financial crisis levels. The 12-month adjusted CPI increased to 0.8% from 0.06% at the end of December; Fed Funds rate was unchanged with the 10-year Treasury Yield down 1.9% from 2.2% the end of December. S&P valuations decreased in March remaining above the 10-year and long-term averages.

U.S. equities posted modest gains in the first quarter; small cap stocks underperformed large cap, with the Russell 2000 Index returning -1.5% and Russell 1000 Index returning 1.2%; international equities underperformed U.S. markets during the quarter. Emerging markets returned 5.7% as measured by the MSCI Emerging Markets Index; Private equity fund raising totaled $130.5 billion in Q1 2016; Venture capital fundraising totaled $9.2billion; growth equity fundraising totaled $3.4Billion.

Fixed income yield curve shifted down for maturities greater than six months; the spread between two and 10-year rates decreased to 105 basis points from 121, Treasury Inflation-Protected Securities returned 3.6% during the quarter; Barclays Long Duration Credit Index gained 6.82%; Long Treasuries gained 8.49% and investment-grade corporate debt gained 3.03%. Emerging markets debts gained broadly and were pronounced in local currency as relative dollar weakness spurred strong gains.

OPEC, Saudi Arabia and oil producing countries continue to show a willingness to allow lower oil prices to persist in efforts to cement market share and reduce marginal supply. Select infrastructure opportunities are showing signs of being attractive; secular opportunities exist within the shipping industry. Timber opportunities remain elusive as income yields are low as assets are predominantly traded between like-minded institutions.

Commodities ended the quarter with a meager 0.51%; Within U.S. real estate, strong fundamentals continue to be the story along with attractive income spreads relative to interest rates. Non-core real estate investment environment in the U.S. is normalizing; select areas remain attractive.

Low U.S. bond returns warrant a more positive tilt to U.S. equity. Central bank support and dollar strength provide positive economic backdrop. Overweight emerging small-cap and consumer focused strategies relative to broad equity mandates. Private market opportunities are preferred access point as energy market distress continues.

The U.S. economy is nearly seven years removed from the previous recession, but the health of U.S. consumers can extend the expansion. Influence of central bank policies in the developed world remain broadly supportive for risk assets, but come with long-term effects.

Relative to the average length of economic cycles, the U.S. expansion is in its later stages; improvements in wage growth and consumer spending can extend expansion; continues U.S. expansion provides a positive foundation for U.S. risk assets. A prolonged U.S. economic expansion is likely to have a significant influence on the U.S. dollar cycle; U.S. dollar strength is interconnected with U.S. Federal Reserve policy.

Accommodative global monetary policies flow through to markets distorting the traditional asset return profile; potential extended period of low cash rates beyond the market expectations pose challenges for all investors.

U.S. GDP continues to strengthen modestly; U.S. economy shows resilience against headwinds; and corporate profits begin to lag from secular highs. The sustained U.S. dollar appreciation is globally disruptive; world economy has suffered a "dollar recession" as global GDP in USD terms has declined by nearly $4 trillion; dollar strength impacts global economy by improving competitiveness for countries and companies reliant on exports to the U.S., represents a headwind to U.S. corporate earning and exports, and the Fed is forced to balance slower interest rate increases.

No further discussion by the Commission.

6. <u>Adjournment</u>

Vice-Chairman Trost made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet August 24, 2016.

*Respectfully Submitted:*________________________________
Ruth Ann Chicoine, Administrator