

OKLAHOMA STATE PENSION COMMISSION
Minutes
August 24, 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: Chairman, Ken Miller – State Treasurer; Vice-Chairman, Lou Trost - Governor Appointee; Gary Jones – State Auditor.

Others: Ruth Ann Chicoine – Administrator; Don Stracke and Anthony Ferrara - NEPC; Joe Fox and Brad Tillburg – Public Employees Retirement System; Steve Snyder – Oklahoma Police Public Retirement System; Gingler Sigler – Oklahoma Law Enforcement Retirement System; Andrew Messer and Time Allen – Oklahoma State Treasurer; Bob Jones – Oklahoma Firefighters Retirement System; Sabra Tucker – OREA; Paul Pustmueller – BOK/Cavanal Hill; Shane Ashley – e-Capitol News; Melinda Streich – Oklahoma Wildlife Retirement System; Tommy Chism – Oklahoma Retired Firefighter; Diane Lewis – Retired OPERS; and Dana Cramer ORFA.

2. Approval of Minutes dated Jun 8, 2016

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

3. Investment Performance Analysis and Fee Analysis Report – Don Stracke and Anthony Ferrara - NEPC

Chairman Miller turned the meeting over to Don Stracke and Anthony Ferrara of NEPC to present the reports.

Second GDP growth rate was 1.2%; unemployment rate decreased 0.1% to 4.9% in the second quarter; the Case-Shiller Home Price Index increased from 180.7 from 176.9, still higher than pre-financial crisis levels. The 12-month adjusted CPI increased to 0.8% from 0.06% at the end of June; Fed Funds rate was unchanged with the 10-year Treasury Yield down 1.6% from 1.9%. S&P valuations increased, remaining above the 10-year and long-term averages.

U.S. equities posted gains of 2.5%; small cap stocks outperformed large cap, with the Russell 2000 returning 3.8%; international equities underperformed during the quarter, return -0.6%. Private equity fundraising totaled \$104 billion; venture capital fundraising totaled \$16.9 billion; growth equity totaled \$3.4 billion.

The yield curve shifted down for maturities; intermediate yields decreased 20-29 basis points; the spread between two and 10-year rates decreased to 91 basis points from 105; The Barclays Long Duration Credit Index gained 6.65%; long treasuries gained 6.44% and investment grade U.S. corporate debt gained 2.21%.

Real assets/inflation-linked assets, there is a energy market dislocation; infrastructure opportunities are showing signs of being attractive; timber opportunities remain elusive; metals and mining weakened commodity prices may be the new norm; and agriculture outlook is supported by strong demographic trends.

Within U.S. core real estate, strong fundamentals continue with attractive income spreads relative to interest rates; Europe is viewed as the best place for a marginal dollar of non-core real estate investment.

Maintain overweight exposure to non-U.S. developed market equities; investors to continue to hedge developed market currencies; recent strength validates commitment to emerging market equities; developed market duration exposure is generally unattractive.

Market value for the systems has gone up 2.5 for the quarter with a rank of 14. Looking at the information in the report, the systems have not been able to make their assumed rate of return, even though they are doing well in this market.

Discussion followed by the Commission regarding the Investment Performance before going to the Fee Analysis report.

Within public markets, there are three general types of fee structures: Flat fee, Tier or Asset-based fee, and Performance-based fee. Within the private equity and hedge fund fees, there are different types of fee structures which depend on the type of vehicle: Private Equity fee structures and Hedge Fund fee structures. Competitive pressures are leading to lower fees. In public markets, chronic manager underperformance has led to increased use of passive management; Alternatives fees are coming down, increasingly fees are being quoted on invested or drawn amounts and non-zero hurdle rates are more common; and public entities are facing greater political pressures on fees.

Fees have gone up for the systems in the past year, but they will depend on the market environment and strategies being used. A request from Chairman Miller was made to see an overview of fees paid by all the systems over the last 10 years to see if the fees are going up or down and whether the fees are going up because of performance or what is causing them to go up.

No further discussion by the Commission.

4. 2017 Meeting Dates – Vice-Chairman Trost

Vice-Chairman Trost would like for the administrator to coordinate with the retirement systems on getting information of when their meetings are for the year and come up with a plan so that all of the systems have representation at the Pension Commission meeting; this will all be coordinated with the Chairman's calendar for 2017. Auditor Jones made the motion to have the administrator contact all concerned for meeting dates for 2017, with a second by Vice-Chairman Trost, all in favor.

6. Adjournment

Chairman Miller made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet November 30, 2016.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator