

OKLAHOMA STATE PENSION COMMISSION
Minutes
February 22, 2017

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on February 22, 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. Chairman Miller called the meeting to order.

Members Present: Chairman, Ken Miller – State Treasurer; Vice Chairman, Lou Trost – Governor Appointee; Commissioner Gary Jones – State Auditor; Commissioner Lawrence – Governor Appointee; Commissioner Northrup – Designee for Commissioner Doerflinger.

Others: Ruth Ann Chicoine – Administrator; Don Stracke and Phil Nelson - NEPC; Joe Fox and Brad Tillburg – Public Employees Retirement System; Andrew Messer and Tim Allen – Oklahoma State Treasurer; Ginger Sigler – Oklahoma Law Enforcement Retirement System; Chase Renkin and Dana Cramer – Oklahoma Firefighters Retirement System; and Doug Anderson - AudCo.

2. Approval of Minutes dated November 30, 2016

A motion was made by Commissioner Lawrence 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 – Don Stracke and Phil Nelson - NEPC

Chairman Miller turned the meeting over to Don Stracke and Phil Nelson of NEPC to present the reports.

The fourth quarter growth rate was up a modest 1.9%; unemployment rate decreased to 4.7% from 4.9%; the Case-Shiller home price index increased to 185.06 and is at levels higher than that of pre-financial crisis levels. The rolling 12-month CPI was up to 2.09%; the Red Funds rate increased to +0.25% and the 10-year Treasury Yield finished at 2.5%, up 0.9% from the third quarter. S&P valuations increased, remaining above the 10-year long-term averages.

U.S. equities posted gains of +3.8%, volatility related to political change and economic uncertainty; small cap stocks outperformed large cap during the quarter; international equities underperformed U.S. markets during the quarter. Private equity fundraising totaled \$395.4 billion; venture capital fundraising totaled \$56.8 billion; and growth equity fundraising totaled \$23.9 billion.

The nominal yield curve steepened in the fourth quarter, intermediate yields increased 79-85 basis points. Long treasuries lost -11.67% and investment-grade US corporate debt lost -2.98%. Emerging markets debt sustained moderate losses. Energy remains attractive; timber has low return potential; commodities ended the quarter up; real estate remains strong, however valuations are high; noncore real estate investment is normalizing; REITs are trading below NAV; Europe is viewed as the best place for a marginal dollar of non-core real estate.

The health of U.S. consumers continues to drive economic growth, given relatively low debt levels. Improvements in wage growth and ongoing recovery in housing further supports the modest upticks in inflation. The Federal Reserve is expected to slowly increase interest rates; 2017 is likely to be a year for greater uncertainty regarding Fed policy.

Total fund performance has the market value of the systems at \$29,936,293,618, up 1.4%, with a rank of 19. Overall funded status of the plans has decreased slightly since fiscal year 2016, from 76.0% to 75.4%, mainly from volatile markets. To compare, the average public pension plan was 73.7% funded in FY2015. Even though funded status of the plans decreased, the plans made great improvement in the last seven years. Teachers' remains the largest and the least funded of the seven plans.

The Oklahoma plans' aggregate funded status had consistently trailed the funded status of the average public plan. After legislative changes were implemented regarding COLA funding, there has been considerable improvement and convergence.

The average rate of return for the fiscal year ending June 30, 2016 was 7.45%. As of July 1, 2016, the overall funded status of the plans was 71.9% under GASB 67 vs. 75.4% using actuarial value of assets. For fiscal 2016, each plan's actuary has determined that all the plans' projected benefits would be covered by projected assets.

Investment return assumptions for Teachers, Fire, Police, and Law are in line with other public funds. All plans have in place long-term amortization schedules to fund the Unfunded Accrued Liability; all plans employ similar actuarial asset valuation methods, where gains and losses are smoothed over five years. Most plans continue to use the RP-2000 mortality tables.

There were no new legislative changes affecting the plans enacted in FY16; OPERS created a defined contribution plan for most new employees beginning November 2015. Oklahoma's plans have an ad hoc COLA provision, which must be fully funded prior to payment per a 2011 regulation. In aggregate, the State's plans are 75.5% funded as of June 30, 2016; actuarial contributions exceeded recommended amounts by \$119million in FY2015, prior years' strong asset performance continues to flow through the actuarial value of assets and help boost funded status.

No further discussion by the Commission.

4. Amendment of June 2017 Meeting Date – Chairman Miller

Chairman Miller asked if there would be any conflict moving the June meeting date to from June 14 to June 21, all commissioners in favor; the administrator will notify the Secretary of State's office.

5. Adjournment

Chairman Miller made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet June 21, 2017.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator