

OKLAHOMA STATE PENSION COMMISSION
Minutes
August 23, 2017

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on August 23, 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, but made it known he would have to leave shortly for another engagement, and would turn the meeting over to Vice-Chairman Trost.

Members Present: Chairman, Ken Miller – State Treasurer; Vice Chairman, Lou Trost – Governor Appointee; Commissioner Gary Jones – State Auditor; Commissioner Doerflinger – Director, Office of Management and Enterprise Services; Commissioner Lawrence – Governor Appointee.

Others: Ruth Ann Chicoine – Administrator; Kim Heaton – Legal Counsel; Don Stracke and Anthony Ferrara - NEPC; Joe Fox and Brad Tillburg – Public Employees Retirement System; Andrew Messer and Tim Allen – Oklahoma State Treasurer; Tom Spencer – Oklahoma Teachers Retirement System; Bob Jones and Chase Rankin – Oklahoma Firefighters Retirement System; Ginger Sigler – Oklahoma Law Enforcement Retirement System; Melinda Streich – Oklahoma Wildlife Retirement System; Paul Pustmueller – BOK; and Shawn of eCapitol.

2. Approval of Minutes dated June 21, 2017

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. Nomination and Election of Officers – Vice-Chairman Trost

The next two-year term for Chair and Vice-Chair was voted on, with Vice Chairman Trost nominating Treasurer Miller for Chair, a second by Commissioner Jones; all approved. The next motion was for Vice-Chairman, with Commissioner Lawrence nominating Commissioner Trost, with a second by Commissioner Jones; all approved. The term for the two seats will terminate January 2019 with new commissioners coming in because of term limits.

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

Chairman Miller turned the meeting over Vice-Chairman Trost to continue the meeting while he had another appointment to attend to. Vice-Chairman Trost turned the meeting over to Don Stracke and Anthony Ferrara of NEPC to present the reports. The first report presented is the Investment Performance.

Second quarter GDP growth rate is estimated at 2.6%; unemployment rate decreased to 4.4% from 4.5%; the Case-Shiller Home Price Index increased to 190.6 from 185.5 and is at higher levels than that of pre-financial crisis levels of 150.9. Rolling 12-month seasonally-adjusted CPI saw a down-tick to 1.6% at the end of June; Fed Funds rate was increased +0.24% to a targeted range of 1.0%

- to - 1.25%. The Fed balance sheet decreased slightly during the second quarter of 2017, while the European Central Bank continues to increase. S&P valuations increased slightly in the 2nd quarter remaining above the 10-year averages.

U.S. equities as measured by the S&P 500 posted moderate gains in the second quarter; small cap stocks underperformed large cap during the quarter; emerging markets returned 6.3% as measured by the MSCI in U.S. dollar terms.

Capital commitment momentum continued in the 2nd quarter; private equity fundraising totaled \$121 billion; private equity dry powder continued its increase to \$906 billion ended Q2 up from \$842 billion.

The nominal yield curve continued to flatten in the 2nd quarter. Intermediate to long-term yields declined, while short term yields increased 10-27 basis points under one year. The spread between two and 10 year rates decreased to 93 basis points; Treasury Inflation-Protected Securities returned -0.4%; Barclays Long Duration Credit Index gained 4.70%; Long Treasuries gained 3.96% and investment-grade US corporate debt gained 1.4%; emerging markets debt had moderate to strong gains.

U.S. recession concerns are muted, the U.S. economy appears on a path of slow, but steady growth; the labor market recovery has been strong, but slack remains as many have yet to return to the workforce. U.S. household balance sheets have room to expand and support further consumer spending gains. It is expected to see slow, but increasing interest rates; reduction of the Fed balance sheet will likely be a gradual process.

No major changes to all funds, they appear to be in their target ranges, Teachers and OPERS running a more traditional portfolio, more international exposure; large cap did well along with the Russell 2000. Firefighters and Police did well with real estate investment. No major change with equity commitments for the plans.

The three-month number for the retirement systems increased 2.9%, with a rank of 53; Teachers trailed at 2.8%, with a rank of 62; OPERS increased 3.1%, with a rank of 39; Firefighters was at 3.7%, Police at 2.6%. For the one-year period, five of seven funds were above the median, five-year was a similar story; all systems are top performing public funds in the country.

There are three general types of fee structures: Flat fee, tier or asset-based fee, and performance-based fee; private equity and hedge fund have fee structures depending on the type of vehicle: Private equity fee structure and Hedge fund fee structure.

There are competitive pressures leading to lower fees. In public markets, chronic manager underperformance has led to increased use of passive management. In alternatives, fees are coming down, being quoted on invested or drawn amounts, and non-zero rates are becoming more common. Public entities are facing greater political pressures on fees.

The 2016 total fees for all the retirement plans was \$80 million, or 0.29%, as compared to \$87 million, or 0.31% for 2015, not a big change. The summary shows that 2016 was a year where active management did not pay off as well as passive management of the plans. The fees are generally in-line with how much other plans are paying, nothing looks out of the ordinary in comparison.

No further discussion by the Commission.

5. Adjournment

Vice-Chairman Trost made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet November 29, 2017.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator