OKLAHOMA STATE PENSION COMMISSION
Minutes
February 21, 2018

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on February 21 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; Commissioner Gary Jones – State Auditor; Commissioner Lawrence – Governor Appointee; Commissioner Adam Winters – Senate Appointee; Commissioner Tim Allen – Designee for Chairman Miller.

Others: Ruth Ann Chicoine – Administrator; Kim Heaton – Legal Counsel; Don Stracke - NEPC; Andrew Messer – Oklahoma State Treasurer; Tom Spencer – Oklahoma Teachers Retirement System; Chase Rankin – Oklahoma Firefighters Pension and Retirement System; and Paul Pustmueller – BOK; Shawn Ashley of eCapitol.

2. Approval of Minutes dated November 29, 2017

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. Travel Reimbursement – Vice Chairman Lou Trost and Legal Counsel Kim Heaton

Vice-Chairman Trost made the statement that commissioners were never given any type of reimbursement for attending the pension meetings, but there has never been a commissioner that was outside of the Oklahoma county area until now, Commissioner Winters of the Altus area, a two-plus hour drive away from the Oklahoma State Capitol. After speaking with the Commissions legal counsel, Kim Heaton, it was determined by O.S. 74 § 500.2, that we are allowed to approve a reimbursement policy for board members that are not state employees, based on that statute. OMES Form 19 will be sent out to Commissioner Winters with information on how to fill it out for payment through the State Auditor's office and reimbursement through the seven retirement systems.

The Commissioners commended Ms. Heaton for her efforts on the research and obtaining the statutes and other information to get the reimbursement passed for any commissioner that may hold a position on the Commission when they may have to drive from outside Oklahoma County to attend the pension meetings.

A motion was made by Vice-Chairman Trost with a second by Commissioner Jones, all in agreement, Commissioner Winters abstaining; motion passed. A motion was made by Commissioner Jones to make the reimbursement retroactive to the first meeting that Commissioner Winters was appointed and attended in November, a second by Vice-Chairman Trost, all in favor, Commissioner Winters abstained; motion passed.

4. Investment Performance Analysis and Actuarial Analysis – Don Stracke - NEPC

Vice-Chairman Trost turned the meeting over to Don Stracke of NEPC to present the reports. Don called NEPC consultant Mark Cintolo to present the Actuarial Analysis.

Fourth Quarter GDP growth increased at 2.6%; unemployment rate decreased to 4.1% from 4.2%; the Case-Shiller Home Price Index increased to 195.6 from 194.1; the rolling 12-month seasonally-adjusted CPI was down to 2.1% from 2.2%; the Fed Funds rate increased to a targeted range of 1.25% to 1.50%; 10-year Treasury Yield finished at 2.4%, up from 2.2%; S&P valuation increased, remaining above the long-term averages.

U.S. equities as measured by the S&P 500 posted a gain of 6.6%; small cap stocks underperformed large cap; non-U.S. equities did well at 5.0% trailing the S&P 500; emerging markets returned 7.4%; Capital commitment momentum slowed, however aggregate capital raised; Private equity fundraising totaled $95 billion in the third quarter; private equity dry powder continued its increase to record levels at $954 billion.

Fixed income nominal yield curve continued to flatten; long term yields decreased 5-to-12 basis points; Treasury inflation-protected securities returned 0.5% during the quarter; BBG Barclays gained 3.16%; Long treasuries gained 2.37% and investment-grade U.S. corporate debt gained 0.4%; emerging markets debt had mixed results.

Energy remains attractive despite volatile oil prices; infrastructure – select opportunities to access growth markets; Metals and mining may have bottomed; timber having a low return potential; and agriculture near-term slowdown in price appreciation that creates opportunity to invest in a strong long-term outlook supported by demographics.

Commodities gained 4.7% as measured by the Bloomberg Commodity Index; real estate fundamentals remain strong, valuations are high on an absolute and relative basis; the non-core real estate investment environment in the U.S. is normalizing; Europe is viewed as the best place for a marginal dollar of non-core real estate investment; emerging markets in Latin America and Asia may have opportunities.

The U.S. economy is in an extended expansionary cycle despite being eight years removed from the last recession; financial health of U.S. consumers and ongoing recovery of the housing market continue to drive economic growth; a prolonged U.S. economic expansion can support a continued rally for U.S. equities; low inflation provides a foundation for positive economic conditions; moderating U.S. dollar strength is another form of easy financial conditions, benefiting global trade.

Labor market gains have been robust, but many have not returned to the workforce; muted wage gains and low inflation metrics are reflective of the excess capacity remaining in the U.S. economy; tax cuts and fiscal stimulus can potentially remove spare economic capacity and be a catalyst for an uptick in inflation measures; acceleration in inflation leading to a tightening of financial conditions has historically been a catalyst to end economic expansions; improved U.S. household balance sheets have room to expand and support consumer spending gains.

Global economic conditions are improving in a synchronized fashion; coordinated global growth factors reinforce economic gains across the globe and are distinct from the extension of the U.S. economic cycle; growth rates harmonized across the globe; conditions are the result of Europe, Japan, and large parts of the emerging world transitioning out of economic malaise; historically, periods of synchronized growth have been derailed by higher inflation levels.

The Federal Reserve is expected to slowly increase interest rates; the Fed's balance sheet normalization is a low-grade tightening of monetary policy, but its impact is untested; gradualism is the policy of choice globally as the major central banks manage unprecedented initiatives; inflation expected to shift marginally higher in the coming years; china is the global growth engine, but faces fundamental transitions, they must manage competing social goals in attempting to sustain growth.

Uneven economic growth and wage gains have fueled political discontent in the developed world; many nations, a turn inward is associated with globalization fatigue; major shifts in U.S. trade policy did not materialize in 2017; the UK serves as a live case study for the effects of globalization backlash.

The asset allocation shows that there has been very little variation within the plans as compared to the past year as there was no major change to the strategy. The equity commitment of the Oklahoma public plans has more exposed equity than the average universe, but no major change to the equity exposure. The total fund performance of the plans stands at over $32 billion with a 3-month rank of 20, all plans have very strong returns for that period.

Overall funded status of the plans increased more than 3% since fiscal 2016, to 78.6%; high markets in 2017 led to strong asset returns over the past fiscal year for all plans; the Oklahoma plans' aggregate funded status has seen continued improvement and has surpassed the funded status of the average public plan.

A table on page seven of the Actuarial summarized the State-only contribution requirements for the 2017 and 2018 fiscal years. For fiscal year ending 2018, the recommended contribution is 9.5% of payroll, or $634 million, lower than 2017. For fiscal year ending 2017, the recommended contribution to the Oklahoma pension plans was $659 million or 9.8% of total payroll. The contribution amounts for each plan are not tied to the calculation of the actuarially determined contributions amounts.

Charts on page eight show the rates of contributions by type, for each plan as mandated by statute and the actual contributions dollars by type, for each plan in fiscal year 2017. Actual contributions exceeded recommended amounts by $65 million in fiscal year 2017; four plans received more than the required contribution amount.

Investment return assumptions are in line with other public funds. All plans have in place long-term amortization schedules to fund the Unfunded Accrued Liability; the plans employ similar actuarial asset valuation methods, where gains and losses are smoothed over five years. Four of the plans have adopted the RP-2014 mortality tables, which have increased longevity assumptions over previous table and therefore increased plan liabilities.

In aggregate, the State's plans are 78.6% funded as of June 30, 2017; actual State contributions exceeded recommended amounts by $65 million in fiscal year 2017; the prior two years of asset losses continue to be recognized in the actuarial value of assets, slightly boosting funded status; the plans' assumptions are within a reasonable range; and GASB67 reporting found the Oklahoma plans at 77.9% funded, using market value of assets.

No further discussion by the Commission.

5. <u>Adjournment</u>

Vice-Chairman Trost made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet June 20, 2018.

*Respectfully Submitted:*________________________________
Ruth Ann Chicoine, Administrator