OKLAHOMA STATE PENSION COMMISSION
Minutes
June 20, 2018

1. **Call to Order**

A meeting of the Oklahoma State Pension Commission convened on June 20 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; and Commissioner Lawrence – Governor Appointee.

Others: Ruth Ann Chicoine – Administrator; John Crittenden – Legal Counsel; Anthony Ferrara - NEPC; Andrew Messer – Oklahoma State Treasurer; Tom Spencer – Oklahoma Teachers Retirement System; Chase Rankin – Oklahoma Firefighters Pension and Retirement System; Joe Fox and Brad Tillberg – Oklahoma Public Employees Retirement System; Ginger Sliger – Oklahoma Law Enforcement Retirement System; Sabra Tucker – OREA; Paul Pustmueller – BOK; and Shawn Ashley of eCapitol.

2. **Approval of Minutes dated February 21, 2018**

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

3. **Announcement of New Executive Directors – Chairman Miller**

Chairman Miller introduced Mr. Chase Rankin, the new Executive Director of the Oklahoma Firefighters Pension and Retirement System and Mr. Sean Ruark, Interim Executive Director for the Oklahoma Police Pension and Retirement System.

4. **Annual Contract and Projected Expenditures for FY19**

This is the fourth year of the five-year RFP, with the contract remaining at $100,000 plus $10,000 in expenses and the projected expenditures of $22,000 for administrative costs, Commissioner Jones made a motion to accept the contract for FY19 with a second by Commissioner Lawrence, all approved, contract with NEPC and administrative costs accepted.

5. **Legislative Update – Vice-Chairman Trost**

Teachers Retirement had several bills that passed during the legislative session, HB 1340 that provides a one-time payment to TRS members based on their service dates; HB 2553 permits the TRS board to gradually wind down the TRS 403(b) plan, permits TRS to act on disability retirements, and a cleanup provision concerning ESIP/wear away calculations of salary; and SB 527 requested by Higher Ed will permit TRS members in higher ed to purchase up to two years of service credit. OPPRS fell under the same HB 1340 regarding the one-time stipend; and HB 2515 was a bill to clarify language for current OPPRS statutes. OLERS also was part of HB 1340; SB 527 will permit OLERS to give members who retired with less than 20 years of services with a service connected disability, the half pay COLAS that are received by retired members with at least 20 years of service; HB 2517, an IRS technical corrections bill; and SB 956 allowing the thief Investigator of the Pharmacy Board to be in OLERS. OFPRS was also in HB 1340 providing a one-time stipend to members retired as of October 1, 2013.

No further discussion by the Commission.

6. Performance Analysis and Investment Outlook – Anthony Ferrara - NEPC

The meeting was turned over to Anthony Ferrara of NEPC to present the reports.

GDP is growing moderately at 2.3%; unemployment rate remained flat at 4.1%; the rolling 12-month CPI saw an up-tick of 2.4%; Fed Funds rate increased 0.25% to a targeted range of 1.5%-1.75%; And S&P valuations increased slightly in the first quarter. US equities posted a loss in the first quarter; small cap stocks outperformed large cap; international equities underperformed US markets returning -1.2%; capital commitment momentum slowed; private equity fundraising totaled $80 billion; and private equity continued its increase to record levels, standing at $1.09 trillion.

The Oklahoma plans have a higher allocation to equities across the board; the median allocation of public plus private equity is about 61%, six of the seven funds are above this, giving them stronger returns. Firefighters over the last year have had 350 basis points of outperformance of their policy index, Police got a 3.3% return in the same period. The total market value for the seven plans is over $32 billion, outperforming most assumed rates at 7.4%, the plans are on track to surpass the assumed rates. Teachers had a 10-year return of 8.4% of the universe of public funds, the US equity allocation has driven this and selecting active managers that have performed well.

The outlook for developed market equities outside the US remain strong; equity volatility regimes tend to persist over prolonged periods and the first quarter was witness to a material shift in equity volatility. The US economic cycles do not die of old age, but from stunted growth prospects; US financial conditions remain loose and support steady economic gains; global economic conditions are improving in a synchronized way; positive growth rates harmonized across the globe are rare; the Federal Reserve is slowly pushing interest rates higher; inflation is expected to shift marginally higher in coming years.

China is the global growth engine, but face fundamental transitions, their government is negotiating a balance of tightening credit expansion and support for economic growth; uneven economic growth and wage gains have fueled political discontent in the developed world; US-China trade tensions are a full expression of a backlash theme; US stocks have posted strong returns over the last nine years; reduce US large-cap exposure to fund global equity and non-US strategies; multi-year earnings recovery offers the potential for an elevated return in EAFE markets; non-US small cap and global equity are preferred for implementation.

Emerging equities offer the highest total return potential for investors; high tracking error strategies offer greater flexibility to invest across emerging counties and are preferred to benchmark focused mandates; duration exposure remains a key asset allocation building block for a diversified portfolio; increase in inflation expectations would favor TIPS over nominal bonds. Over the last 24 months, high yield bonds have provided strong gains; valuations of other credit sectors appear stretched with dollar based EMD also looking expensive.

MLP/Midstream energy expose offers an attractive long-term growth potential; recovery of the energy infrastructure sector offers a compelling total return; Macro hedge fund strategies offer broad benefits to a total portfolio; fund systematic global macro from broad based GAA and hedge fund of fund strategies; volatility levels for markets outside equities remain near historic lows; long volatility strategies with positive carry are the only implementation option recommended.

No further discussion by the Commission.

7. <u>Adjournment</u>

Vice-Chairman Trost made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet August 22, 2018.

*Respectfully Submitted:*________________________________
Ruth Ann Chicoine, Administrator