

OKLAHOMA STATE PENSION COMMISSION
Minutes
August 22, 2018

1. Call to Order

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

Others: Ruth Ann Chicoine – Administrator; Don Stracke - NEPC; Andrew Messer – Oklahoma State Treasurer; Tom Spencer, Joseph Cappello, and Kirk Stebbins – Oklahoma Teachers Retirement System; Chase Rankin and Dana Cramer – Oklahoma Firefighters Pension and Retirement System; Joe Fox and Brad Tillberg – Oklahoma Public Employees Retirement System; Ginger Sigler – Oklahoma Law Enforcement Retirement System; Sean Roark and Deric Berousek – Oklahoma Police Pension and Retirement System; Sabra Tucker – OREA; Paul Pustmueller – BOK; and Shawn Ashley of eCapitol.

2. Approval of Minutes dated June 20, 2018

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

6. Performance Analysis and Fee Analysis - Don Stracke - NEPC

The meeting was turned over to Don Stracke of NEPC to present the reports.

U.S. stocks increased on the quarter, supported by strong earnings growth. Emerging market equities and currencies weakened this quarter as trade concerns and Federal Reserve interest rate increases weighed on markets. The U.S. yield curve continued to flatten as the second Fed rate hike of 2018 pushed short-term interest rates higher. Global growth outlook remains strong, equity market volatility fell despite escalating tensions related to the U.S.-China trade dispute; U.S. Treasury curve continued to flatten raising concerns should the Fed hike rates beyond market expectations.

Credit spreads increased slightly, remaining below medians in most areas of the credit market; dollar-denominated EMD spreads increased 62 bps during the quarter; local currency EMD declined as currency weakness weighed on returns. Crude oil increased 14.2% as a result of tighter global supply; agricultural commodities broadly declined; MSPs reversed steep losses from earlier in the year as industry consolidation and simplification continues.

With the U.S. economy performing well, 2018 was set to be a strong year for earnings; international and emerging markets are also experiencing strong growth but have suffered from the negative sentiment associated with U.S.-China trade tensions.

There is a higher than median equity exposure for the Oklahoma plans over the long term. The excess return for five out of seven periods, the funds outperformed the policy index, their active management added value. The total performance of all the plans is up 2% for the year, ahead of 94% of all plans. Selection of less international equity and small cap over the quarter was helpful. Seven out of seven funds were above median for the quarter, outperforming all public funds, all were ahead of assumed rate of return for the period, having a beneficial effect of the funded ratio of all the plans. Looking at the five-year numbers, there is a 9% increase combined of all plans. The three-year rank has the total fund frisk/return of all plans in the 94th percentile.

There are three general types of fee structures flat fee tier or asset-based fee or performance base fee. Competitive pressures are leading to lower fees; in public markets, chronic manager underperformance has led to increased use of passive management; public entities are facing greater political pressures on fees. The total of fees for all state plans have gone up 0.32% to over \$99 million a year, this is driven by the market value.

No further questions or discussion by the Commission.

7. **Adjournment**

Chairman Miller made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet November 2018.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator