

OKLAHOMA STATE PENSION COMMISSION
Minutes
November 28, 2018

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on November 28 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 – 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; Kim Heaton and Martha Kulmacz – Legal Counsel, Attorney’s General; Cindy Byrd – Oklahoma State Auditor; Sabra Tucker and Terry Ingmire – OREA; and Shawn Ashley of eCapitol.

2. Approval of Minutes dated August 22, 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. Actuarial Funded Ratio Results for FY18

A report on actuarial funded status from FY10, FY17, and FY18 was presented by Commissioner Trost. A table was given out with the percentage of what the retirement funds funded status has been for the three years indicated; all Funds have increased through the eight years, but not fully funded at 100%, except for Justices and Judges. Commissioner Jones would like to see a COLA given at some point, but that will have to go through legislation. Chairman Miller went to a regulatory meeting in New York recently and was pleased to say that the Oklahoma retirement systems are now a credit positive for the state, whereas in the past they were a credit negative.

4. Performance Analysis and Public Fund Update - Don Stracke - NEPC

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

The Performance Report is through September 30 and things have changed since. For the quarter the GDP increased at an annual rate of 3.5%; unemployment decreased to 3.7% from 4.0%; the Case-Shiller Home Price Index increased to 205.4 from 200.9; the rolling 12-month seasonally adjusted CPI went down from 2.9% to 2.3%; the Fed Funds rate increased to a targeted range of 2.0-2.25%.

U.S. equities increased during the quarter, supported by strong macroeconomic data and tight labor market; emerging market equities declined with ongoing currency weakness and trade tensions;

the Federal Reserve hiked rates for the third time this year and is expected to hike rates again in December; the global growth outlook remains intact; global bond yields increased as central banks transition toward tighter monetary policy; higher rates in the U.S. supported the dollar, adding further pressure to emerging market currencies.

Strong economic data and positive sentiment helped U.S. equities to outperform global equities; trade-sensitive economies disproportionately declined as escalating trade tensions and currency weakness weighed on returns; credit spreads broadly declined and remain below medians in most areas of the credit market; dollar-denominated emerging market debt increased by 2.3% as spreads tightened; oil declined for the quarter, but is up 41.8% for the year; agricultural commodities declined due to robust supply and trade war-related concerns.

The Fed has shifted from a lower for longer policy to a more balanced posture of raising rates inline with higher inflation. Based on the FOMC projections, the Fed is communicating a tightening path as their forecast for interest rate hikes moves beyond the long-term neutral rate.

The Plans' total market value is \$33,641 billion and is higher than around 70% of other public funds nationwide. Six of seven plans out-performed the median for the time period, very similar for five- and ten-year returns; five of the seven plans have outperformed the average public fund. It is suggested that when the funds get to 100% it is better to be more conservative in investing to maintain. There can be a lot of volatility depending on how the assets have been allocated.

The Public Funds analysis explains the public fund market. According to the U.S. Census Bureau, roughly 6,000 public sector retirement systems exist in the U.S. Some of the 299 state-administered plans and 5,977 locally-administered plans date back to the 19th century and each has evolved independently. Collectively, these plans have \$4.3 trillion in assets as of September 30, 2018, 14.7 million active members and 10.3 million retirees, \$282,899 billion in benefit distribution annually.

Characteristics of public funds are they are large; aggregate U.S. public fund assets total \$4.33 trillion; public fund liabilities are larger, aggregate funded level is 71%; public funds are complex; they are the primary source of retirement income for the majority of public employees; public funds represent a significant spending outlay for public entities sponsoring defined benefit plans.

Public plan sponsor challenges despite a strong market environment, face many issues. Key challenges include rate of return and funding issues, volatility and potential drawdowns, and risk management, along with issues such as asset allocation and manager selection; the size of assets has attracted attention from politicians and interest groups. Public plan sponsors as well as endowments and foundations will continue to feel pressure to improve levels of returns, manage risk by diversifying assets; increase allocations to non-traditional investments; adopt more creative products; hire investment personnel that are specialized in their field and for larger funds, consideration of in-house investment management.

The consulting industry continues to evolve at a fast pace. Two of the largest shifts have been in the way clients use consultants and in the make-up of the players in the industry. Client utilization in public funds overwhelmingly continue to use consultants, but in different ways than historically. Industry consolidation since 2009, approximately a third of the consulting firms have been acquired or no longer exist. Successful consulting requires scale which some firms lack; larger more diversified companies face potential conflicts of interest.

No further questions or discussion by the Commission.

5. Approval of 2019 Meeting Dates

A motion was made by Commissioner Jones and a second by Commissioner Lawrence to approve the meeting dates for 2019; all approve, motion passed. Meeting dates are: February 26, June 25, August 20, November 19, all Tuesday's, to better accommodate the executive directors of the retirements systems. The meeting dates may change with new administration.

6. Farewell to Commissioners – Oklahoma State Pension Commission

Commissioner Trost, Jones, and Chairman Miller thanked all those on the Commission for coming to the meetings and being concerned about the retirement systems, thanking the administrator for all the work she has done, and best wishes for the future years.

7. Adjournment

Chairman Miller made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet February 26, 2019.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator