OKLAHOMA STATE PENSION COMMISSION
Minutes
February 26, 2019

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on February 26 at 9:00 a.m. at the Teachers Retirement System, 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. The meeting was called to order once quorum was made.

Members Present: Commissioner Randy McDaniel – State Treasurer; Commissioner Cindy Byrd – State Auditor; Commissioner Doug Lawrence – Governor Appointee; Commissioner Brett Deibel – Designee for Director, OMES; and Commissioner Adam Winters – Senate appointee.

Others: Ruth Ann Chicoine – Administrator; Don Stracke and Lynda Dennen - NEPC; Andrew Messer and Tim Allen – Oklahoma State Treasurer; Tom Spencer, Sarah Green, and Kirk Stebbins – Oklahoma Teachers Retirement System; Timothy VanHorn – Oklahoma Firefighters Pension and Retirement System; Joe Fox and Brad Tillberg – Oklahoma Public Employees Retirement System; Ginger Sigler – Oklahoma Police Pension and Retirement System; Duane Michael – Oklahoma Law Enforcement Retirement System; and Martha Kulmacz – Legal Counsel, Attorney's General.

2. Nomination and election of Chair and Vice Chair

A motion was made by Commissioner Lawrence to nominate Treasurer McDaniel to Chairman of the Pension Commission and for Auditor Byrd to be Vice-Chair with a second by Commissioner Deibel, all approving.

3. Approval of Minutes dated November 28, 2018

A motion was made by Commissioner Lawrence and a second by Commissioner Winters to accept the minutes of the November 28 meeting, all approving.

4. Performance Analysis and Actuarial Analysis - Don Stracke and Lynda Dennen - NEPC

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

The Oklahoma plans' aggregate funded status has seen continued improvement since 2010 and has surpassed the funded status of the average public plan, HB2132 in 2011 regarding COLA funding has a significant effect on plan funded status. Overall funded status of the plans increased about 2.5% since fiscal year 2017, from 78.6 to 81.2%. Two of the seven plans are over 100% funded, and three others are over 90% funded. Continuing strong equity markets in fiscal year 2018 led to a 9.4% average asset return over the past fiscal year. Total plan liabilities grew by 2.3% over the last year.

Under GASB 67, the overall funded status of the plans was 81.3% under vs. 81.2% for funding purposes. GASB 27 uses Market Value of Assets instead of Actuarial Value and may use a different discount rate than four funding purposes.

For fiscal year ending 2019, the recommended contribution is 9.0% of payroll, or $605 million, a decline from 2018. In 2018, five plans received more than what was required. Actual contributions exceeded actuarially recommended amounts by $167 million in fiscal year 2018. Currently, actuarial value of assets is less than market value as past gains are still being recognized.

Median discount rate for public plans is estimated to be 7.38% in fiscal 2019. Investment return assumptions for Oklahoma plans are in line with other public funds. All plans have in place long term amortization schedules to fund the unfunded accrued liability. All plans employ similar actuarial asset valuation methods, where gains and losses are smoothed over five years. Four of the funds have adopted the RP-2014 mortality tables, which have increased longevity assumptions over previous tables and therefore increased plan liabilities.

In aggregate, the State's plans are 81.2% funded as of June 30, 2018. Actual State contributions exceeded recommended amounts by $167million in FY18. GASB 67 reporting found the Oklahoma plans at 81.3% funded, using market value of assets.

The economic environment found the third quarter Real GDP increased at an annual rate of 3.4%. The unemployment rate increased slightly to 3.9% from 3.7% during the fourth quarter. The Case-Shiller Home Price Index increased to 206.3 from205.4 and remains at levels higher than that of pre-financial crisis levels of 150.0.

Global equities sold off during the quarter due to concerns related to fed funds rate increases, fears of global slowdown, and trade uncertainties. The sharp decline in crude oil prices weighed on commodities overall and US high-yield bonds, which have meaningful portion to the energy sector. The Federal Reserve hiked rates for the fourth time in 2018 with one to two additional rate increases expected for 2019.

Global growth has been revised lower and the outlook is likely to moderate in 2019. Developed government bond yields decreased as demand for safe haven assets increased. Global liquidity tightened as the Fed raised rates and the ECB ended the expansion of its QE program. US equities led the global equity sell-off and developed market indices moved into a bear market.

Credit spreads broadly increased across most areas of the market; riskier assets underperformed as demand for high quality and safe-haven assets increased. Bank loans declined by 3.5% as market outflows weighed on asset prices. Oil declined 38% for the quarter due to an increase in supply led by US shale production.

Market dynamics shifted significantly in 2018, with FED policy and US-China trade tensions disrupting many of our key market themes. It is believed we have entered a late-cycle market environment and the dynamics of such an environment will be a focal point for investors. We encourage investors to rebalance developed market equity exposure; and the transition to a late-cycle is accompanied with a more risk-averse investment outlook as economic risks become more pronounced.

The total fund performance market value is over $30 billion; Teachers is down -5% and in the 80th percentile, all plans were down as there wasn't anywhere to put your funds without losing value, it has been a more volatile ride of performance for the average public fund.

No questions were brought up at this time.

5. <u>Adjournment</u>

Chairman McDaniel made a motion to adjourn; all in favor, meeting adjourned. The next regular commission meeting will meet June 18, 2019.

*Respectfully Submitted:*________________________________
Ruth Ann Chicoine, Administrator