OKLAHOMA STATE PENSION COMMISSION
Minutes
August 18, 2020

1. **Call to Order**

   A meeting of the Oklahoma State Pension Commission convened on August 18, 2020 at 9:00 a.m. through virtual meeting by Zoom. 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; Commissioners Gary McAnally and James Ward – Governor Appointees; and Commissioner Dow Hughes – Designee for Director, OMES.

   Others: Ruth Ann Chicoine – Administrator; Mark Higgins and Lauren DiCola - RVK; Andrew Messer and Tim Allen – Oklahoma State Treasurer's Office; Tom Spencer and Joseph Cappello – Oklahoma Teachers Retirement System; Joe Fox, Brad Tillberg and Deric Berousek – Oklahoma Public Employees Retirement System; Ginger Sigler and Sean Ruark – Oklahoma Police Pension and Retirement System; Chase Rankin and Tim Van Horn – Oklahoma Firefighters Pension and Retirement System; Duane Michael – Oklahoma Law Enforcement Retirement System; Shawn Ashley – e-Captiol News; Paul Pustmueller, Michael Sweeney, Ellen Fleming, Robert Kindt, and Evan Walter – Bank of Oklahoma; Christina Haas, Doug Anderson, Jodi Cox, Kevin Nelson, Michael Sweeney, Quinten Dilbeck, Sarah Green and Troy Brown..

2. **Approval of Minutes dated June 16, 2020**

   A motion was made by Commissioner Hughes to accept the minutes of the June 16 meeting with a second from Commissioner Byrd; all approved.

3. **Investment Performance – Mark Higgins and Lauren DiCola – RVK**

   Chairman McDaniel mentioned page 13, he would like to have the actuarial presented during the November meeting so the information is more recent, the actuarial reports are released November 1st, the material would be available to RVK in time to compile the information for the meeting, also to have the fee analysis presented in August. All systems agreed that they would be able to get the actuarial information to RVK in time for the November meeting.

   The meeting was turned over to Mark Higgins and Lauren DiCola of RVK. There are five key performance metrics for the pension plans that RVK looks at, 1-Economic and Capital Market Review, 2-Overview of Fundamental Investment Performance Drivers, 3-Collective Performance Highlights, 4-Individual Plan Performance Highlights, and 5-Education/Work Plan. The decline in GDP during the second quarter was estimated at a 32.9% decline, with unemployment rate approaching 20%, but was less at the end of June. The second and third quarters have recovered a bit with S&P 500 up almost 6%, Bloomberg aggregate up around 7%, International markets did not do well and Reitz struggled, down about 10%, some of the areas that our systems have exposure to.

   The COVID pandemic created an economic shock, not unprecedented in history, but our lifetime. There was a major contraction of GDP annualized at 33%, which is confusing with the way it is calculated, take the quarterly decline around 9% and assume it will continue for four quarters, then that is the annualized GDP decline, realistically, the GDP did not decline 33%, it went down actually around 9%. there was also double-digit unemployment at this time, too. Lessons were learned from the 2008/2009 financial crisis, central banks enacted accommodative policies on large scale via asset purchases and interest rate cuts, the governments passed massive stimulus packages to stop the panic, which took about a year, but in 2020, this has taken about a month, with interest rates going down to about zero, several trillion in asset purchases rom the federal reserve, and a fiscal stimulus passed, which all caused a rapid recovery.

Things look a bit uncertain not knowing how the COVID pandemic will play out on the economy and there is a lot of government uncertainty, how much support will be provided, needed, where does it go, these are things that are impossible to predict. The best thing to do is to stick to a specific strategic allocation designed for the long term and try to rebalance to the target.

To understand the key drivers of the investment returns, the return of an investment portfolio can be attributed to three fundamental factors: Strategic Asset Allocation, Tactical Asset Allocation, and Active Management. It is important for institutional investors to be aware of the factors that drive performance and it will be referenced to with the Oklahoma pension plans.

.   Asset allocation choices of the seven plans appear to be the most important drivers of long-term performance differences among the plans. Four of the seven plans ranked among the top third of plans, two ranked slightly above the median, and only one below median over the past ten years, risk-adjusted results were similar.

Looking at charts 2 and 3, the five- and ten-year net of fee returns for the seven systems show the plans are doing well, two in the top decile, four in the median, and one close to the median. The difference in long term returns of the seven plans is primarily attributed to their asset allocation. Some of the key drivers of the returns were – Total Equity and Real Estate Exposure, U.S. Equity Style Tilt, Allocation to Alternative Asset Classes, and Active Management.

Teachers total fund provided solid returns over longer time periods relative to its policy index and ranked well over the seven-to ten-year period. OPERS total fund provided solid returns over all periods relative to its policy index and ranked around the top quartile over all periods relative to the median returns of a broad peer group of public plans. Firefighters generated the strongest long-term return among the Oklahoma plans, both on an absolute and risk-adjusted basis, the plan exceeded its policy and actual allocation index over most periods and ranked in the top decile. Police generated returns that ranked below median over all trailing periods out to ten years and also trailed both policy index and actual allocation index, it has performed better on a risk adjusted basis, though. OLERS generated a ten-year absolute return that ranked fifty to other Oklahoma plans and below median relative to a peer group of public plans, the plan ranked at roughly median. Justices and Judges generated a ten-year absolute return that ranked fourth to the other Oklahoma plans, just shy of top quartile relative to the other plans, shy of top quartile, with strong returns relative to peers. Wildlife performed well over the past ten years relative to a broad peer group of public plans but lagged to other Oklahoma plans.

Chairman McDaniel appreciated the information on the plans and would like to see discount rate information for each plan on the next report with comparisons with other systems outside of Oklahoma. RVK will make sure it's on the next report and in the summary. The national average currently for discount rates is around seven.

Commissioner Hughes would like to see the actuarial funded ratio of the funds, the trend over time on how the performance of the plans have done, the net position of each. RVK is able to have that at the next meeting.

No other discussion by the Commission.

4.   **Adjournment**

Vice-chair Byrd made a motion to adjourn with a second from Commissioner Hughes; all in favor, meeting adjourned. The next regular commission meeting will meet November 2020.

*Respectfully Submitted:*_____
                                        Ruth Ann Chicoine, Administrator