

OKLAHOMA STATE PENSION COMMISSION
Minutes
February 23, 2021

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on February 23, 2021 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; Commissioner Avery Frix – Oklahoma House of Representatives; Commissioner Adam Winters – Oklahoma State Senate; Commissioners Gary McAnally and James Ward – Governor Appointees; and Commissioner Dow Hughes – Designee for Director, OMES.

Others: Ruth Ann Chicoine – Administrator; Mark Higgins - RVK; Thomas Schneider – Legal Counsel office of the Attorney General; Andrew Messer and Tim Allen – Oklahoma State Treasurer’s Office; Joe Fox and Brad Tillberg – 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; Paul Pustmueller – Bank of Oklahoma; Robert Hightower, Deric Berousek, Troy Brown, Sabra Tucker, Carolyn Paul.

2. Approval of Minutes dated November 12, 2020

A motion was made by Commissioner McAnally to accept the minutes of the November 12 meeting with a second from Commissioner Hughes: all approved.

3. Investment Performance and Public Fund Analysis – Mark Higgins – RVK, Inc.

Chairman McDaniel turned the meeting over to Mark Higgins of RVK. This past year investors experienced several rare unprecedented events. March 2020 the outbreak of the coronavirus escalated into a global pandemic. Once investors fully understood the severity of the pandemic, a sharp sell off on Wall Street occurred, but was soon followed by an equal rebound after the Federal Reserve and U.S. Congress enacted massive fiscal and monetary policy responses. In January 2021, the nation witnessed a display of market manipulation when day traders on Reddit encouraged buying of several small cap stocks to squeeze hedge funds holding large short positions. Like the effects of early 20th century bull pools, the prices of these stocks inevitably collapsed as quickly as they rose. Some investors had devastating losses.

When viewed in the context of recent memory, the market returns of 2020 appears to make little sense, yet when the events are evaluated in the context of a longer period, the market reaction seems less out of place. The severity of the events seems to have overshadowed several positive developments that have occurred more recently. The announcements by pharmaceutical companies of positive results on COVID vaccines, two now being administered throughout the country. Governments and central banks throughout the world remain accommodative with monetary and fiscal policies. In December, the U.S. Congress approve a stimulus package providing aid to individuals and businesses suffering from the impact of the pandemic.

Overall performance of the plans was solid for the quarter in both absolute and relative terms. As a result, the 5-year and 10-year return and risk-adjusted returns for most plans continue to compare favorably to indices and peers.

Public pension plans provide Oklahoma State employees with an important source of income in retirement. Over the past decade the systems have matched or exceeded the return required to keep pace with the growth in liabilities. This return, combined with disciplined contribution policies, and enabled the plan to improve its funded status steadily over time. For the future, the plans face challenges, understanding these challenges will be important. Several challenges that are shaping the future of public pension systems would be: Governance, from the fact that public pension plans often fall under the oversight of Boards and Committees populated by members with different levels of experience and subject to turnover. Investment challenges, declining return expectations, increasing securities market efficiency, and crowding of capital in alternative asset classes.

The funded status of Oklahoma's retirement systems is in the upper end of 70-80%, the top quartile. On average, full career employees replace roughly 60% of their pre-retirement income with pension payments. The Oklahoma plans have a solid funded status, on par with the average funded level from an RVK survey of U.S. public pension plans. Oklahoma has improved the aggregate funded status of the pension plans over the past 15 years by increasing contributions above actuarially required rates and generating strong returns from investment portfolios.

In 2016, the Oklahoma Pension plans began reducing the actuarially assumed rate of return. Teachers and Public Employees reduced the assumed rate of return by a total of 100 basis points over the past five years. In comparison to other state pension plans, the Oklahoma plans have been slightly more aggressive in reducing assumed rates of return. The weighted average assumed rate of return is 6.97% for the seven plans versus 7.10% for the RVK public fund average.

One of the primary drivers of Oklahoma's strong pension plan returns relative to other public plans is the high allocation to U.S. equity. In contrast many pension plans have reduced U.S. equity exposure in favor of asset classes that produced lower returns over the past 10 years. Oklahoma plans have focused active management in areas that are more likely to add value, such as international equity and fixed income.

No other discussion by the Commission.

4. **Adjournment**

Commissioner Hughes made a motion to adjourn with a second from Commissioner Frix; all in favor, meeting adjourned. The next regular commission meeting will meet June 15, 2021.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator