OKLAHOMA STATE PENSION COMMISSION
Minutes
June 15, 2021

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on June 15, 2021 at 9:00 a.m. at the Oklahoma State Capitol. 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 Gary McAnally – Governor Appointee; and Commissioner Steven Harpe – 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; Chase Rankin and Dana Cramer – Oklahoma Firefighters Pension and Retirement System; Tom Spencer, Joseph Cappello and Kirk Stebbins – Oklahoma Teachers Retirement System; Paul Pustmueller – Bank of Oklahoma; and Shawn Ashley - e-Capitol News.

2. Approval of Minutes dated February 23, 2021

A motion was made by Commissioner Byrd to accept the minutes of the February 23 meeting with a second from Commissioner Harpe: all approved.

3. Legislative Update

Several items passed this year for the retirement systems by the Legislature. B2894 restores apportionment to Teachers and an enhanced apportionment of taxes to compensate for the reduced rate. HB2293 creates a separate rate for Teachers matching contribution for summer programs. SB267 provides a three-year period for members of Teachers who retired as of July 1, 2020 to be eligible to be re-employed as an active classroom teacher in common/career tech districts with no limit on earnings to encourage qualified teachers to return to the classroom. SB683 removes requirement that full time classified optional personnel be regularly employed for more than year to participated in Teachers Retirement. SB1038 allows student teachers serving in an internship capacity to receive compensation.

HB2458 affects OPERS and URSJJ, deleting the requirement for spouse's signature for option B survivor benefits, allows staff to notify the board of meetings via email, amends the number of trustees required for special meetings and amends a section dealing with the calculation of final average salary for part time employees. HB2824 adds qualified benefits administrator to the list of entities that may receive payment from OPERS for health insurance premiums.

HB2278 modifies the distribution requirements for OFPRS as applicable to members 70.5 years of age to 72 years of age. HB2499 modifies provisions related to authorized payments to beneficiaries from OPPRS. SB745 limits annual retirement pay of certain members of OLERS, also provides for members who retire due to service-connected disability. SB889 adjusts language regarding the age which distributions can be made for OLERS to match revisions to Internal Revenue Code and Treasury Regulations.

4. Consultant Contract and Projected Expenditures for FY22

The second-year contract between the Pension Commission and RVK for FY22 was approved, the contract amount was the same as FY21 at $115,000. Administrative duties performed by the Auditor's office were also approved at $22,000 for the fiscal year. Motion by Commissioner Harpe, second by Commissioner Frix, with all commissioners approving.

5. Investment Performance and Overview of the Active and Passive Management – Mark Higgins – RVK, Inc.

Chairman McDaniel turned the meeting over to Mark Higgins of RVK. Capital markets produced solid returns through the first quarter of 2021, continuing the trend from the prior year. Returns were a bit more consistent by geographic region, as U.S. markets continued to outperform foreign markets.

Fixed income returns were negative during the first quarter as a result of higher interest rates and a modest widening of spreads. Interest rate movement was an uptick in inflation expectations due to the expected impact of fiscal stimulus associated with the ARPA and signals from the Federal Reserve aiming to achieve inflation moderately above 2 percent.

Future outlook, it is never wise to forecast short-term return trends, there are too many unknowable economic variables and the reaction of monetary and fiscal authorities to each variable is even less predictable. Speculating about possible outcomes for the remainder of 2021 is interesting on an intellectual level, but it's important to ground such speculation in the reality that accurately predicting asset class returns over a short time is nearly impossible in any environment. Financial panics tend to strengthen one's temptation to avoid risky assets, disciplines rebalancing required acknowledgement of both temptations and resilience to succumbing to them.

The State pension funds produced strong returns that ranged from approximately 2.6% to 4.5% net of fees. There were few weak spots in the market during the first quarter, with the only exception being fixed income. All major asset classes generated positive returns for the quarter. Overall performance of the pension plans was solid for the quarter in both absolute and relative terms, as a result the 5 and 10-year return and risk-adjusted returns for most plans continue to compare favorable relative to indices and peers.

The fundamental thesis of active management is that the investment manager can outperform the reference index by selecting securities that have superior return expectations and/or avoiding securities that have inferior return expectations. The use of active manager in traditional asset classes is a topic of considerable debate among institutional investors.

Manager selection skill is currently above average and durable; allocating time to active management does not force us to neglect projects that offer greater value to beneficiaries. When evaluating active managers, it is important to understand which of the four arguments they are making and whether the manager has an edge that is credible, durable, and sufficiently robust to warrant the higher fees and opportunity costs.

An investor that uses active managers assume they are better than average at selecting active managers, many investors express optimism bias when making this determination and assume they are skilled when they are not. It is important to weight the benefits of manager diversification against the dilution of using too many managers. It is difficult for investors to adhere to a long-term investment strategy, but even more difficult to ensure that one's successors exhibit the same consistency. The inability of an investor to retain talented staff can compromise an otherwise successful active management strategy. By choosing to engage in active management, an investor chooses not to allocate scarce resources to other activities, some which could generate greater value.

Successful use of active management in traditional asset classes is often more challenging than investors assume. Unique organizational needs and constraints are often overlooked when making active management decisions. The use of alternative asset classes is generally not an allocation decision, rather it is a judgement of an investor's skill in identifying and accessing top-performing managers. The most overlooked challenges of active management and alternative investment usage are the durability of an investor's competitive advantage and stability of their investment strategy.

No other discussion by the Commission.

6. 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 August 17, 2021.

*Respectfully Submitted:*____________________________________

Ruth Ann Chicoine, Administrator