OKLAHOMA STATE PENSION COMMISSION
Minutes
August 17, 2021

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on August 17, 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 Adam Winters – appointee of the Senate Pro Tempore; Commissioner DeWayne McAnally and James Ward – Governor Appointees; and Commissioner Dana Webb – Designee for Steven Harpe – Director, OMES.

Others: Ruth Ann Chicoine – Administrator; Mark Higgins - RVK; Thomas Schneider – Legal Counsel office of the Attorney General; Andrew Messer – Oklahoma State Treasurer's Office; Joe Fox and Brad Tillberg – Oklahoma Public Employees Retirement System; Chase Rankin and Tim Van Horn – Oklahoma Firefighters Pension and Retirement System; Sarah Green – Oklahoma Teachers Retirement System; Paul Pustmueller – Bank of Oklahoma; Kris Mastermann – KOP; and Shawn Ashley - e-Capitol News.

2. Approval of Minutes dated June 15, 2021

A motion was made by Commissioner Frix to accept the minutes of the June 15 meeting with a second from Commissioner McAnally: all approved.

3. Investment Performance and Capital Markets - Mark Higgins – RVK, Inc.

Chairman McDaniel turned the meeting over to Mark Higgins of RVK. Capital markets produced solid returns during the second quarter of 2021. In contrast to the first quarter, asset and sub-asset class returns more closely resembled those that we experienced in 2020. There was a notable uptick in inflation, non-seasonally adjusted CPI increased by 5.4% prompting many investors to question whether higher inflation was a side-effect of increased, post-quarantine business activity. From a historical perspective, the sudden spike in inflation mirrors the U.S. after WWI and the Spanish flue epidemic. In 1919 many industries experience supply shocks as consumer spending rebounded and businesses scramble to adjust their supply chains to shift from a war economy back to a peacetime economy, this resulted in order backlogs, supply shortages, wage pressure, and a corresponding uptick in inflation. The Federal Reserve eventually reacted by raising rediscount rates by 125 basis points in January 1920 and 100 in June. As a result, economic activity seized up and inflation declined sharply and erased the gains of 1919.

The modern economy differs from the early 20th century in many ways, but the economic responses to the two pandemics show similarities. During both pandemics, massive fiscal and monetary stimulus counteracted intense downward pressure on economic activity. The main difference is that the impact of stimulus during the Spanish flu was less obvious because it took the form of increased war-related spending that just happened to coincide with the pandemic. In contrast, fiscal stimulus in 2020 and 2021 was deliberately enacted to offset the negative economic effects of COVID-19.

With COVID related fiscal and monetary stimulus behind us, the remaining uncertainty is how the Federal Reserve will respond, in 1919, the Federal Reserve Banks reacted by raising discount rates suddenly, with almost no warning, this extinguished inflation, but prompted a sharp reversal. In 1920 wholesale prices declined almost 30% and the US economy entered a sharp, short-lived depression. There is discussion today about inflation and whether investors should shift strategy in anticipation of higher rates. The advice to clients is to design investment strategies that suit their long-term objectives and resist temptation to shift the strategy based on short-term disruptions, the current uptick in inflation does not warrant reconsideration of investors' long-term investment strategies.

During the 2nd quarter of 2021, the Oklahoma State Pension Funds produced strong returns, ranging from 4.9% to 7.2% net of fees. The primary performance drivers were strong public and private equity returns. Absolute returns across the seven plans were strong, ranging from 23% to 33%. Performance was similarly strong, as five out of six plans outperformed their respective policy benchmarks net of feeds.

The fundamental drivers have not changed over the past year, only a handful of high-level strategic decision explain most of the strong performances, such as high allocation to equities, bias toward US equities, avoidance of dilutive asset classes, and selective use of active management. In summary, the State pension plans performance is strong because of thoughtful strategic decision. Overall performance of the plans was solid for the quarter in both absolute and relative terms.

No other discussion by the Commission.

4. Adjournment

Commissioner Winters made a motion to adjourn with a second from Commissioner McAnally; all in favor, meeting adjourned. The next regular commission meeting will meet November 16..

*Respectfully Submitted:*__________________________________
Ruth Ann Chicoine, Administrator