OKLAHOMA STATE PENSION COMMISSION
Minutes
August 16, 2022

1. **Call to Order**

A meeting of the Oklahoma State Pension Commission convened on August 16, 2022 at 10:00 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 Lisa Hodges – Designee for State Auditor; Commissioner Dana Webb – Designee for Steven Harpe, Director, OMES; and Commissioners DeWayne McAnally – Governor Appointees.

Others: Ruth Ann Chicoine – Administrator; Jason Samansky and Kyle Hagmeier - RVK; Maria Maule – Legal Counsel office of the Attorney General; Tim Allen – Oklahoma State Treasurer's Office; Joe Fox and Brad Tillberg – Oklahoma Public Employees Retirement System; Chase; Sarah Green, Kirk Stebbins, and Joseph Cappello – Oklahoma Teachers Retirement System; Ginger Sigler and Deric Berousek – Oklahoma Police Pension and Retirement System; Ross Lawyer – Oklahoma Law Enforcement Retirement System; Jennifer Grigsby – Cabinet Secretary; and Evan Walter – Bank of Oklahoma.

2. **Summary of Informational Items Presented at the June 14 Meeting – Chairman McDaniel and Chief Assistant Attorney Maule**

Because of not having quorum for the June meeting, the FY23 contract with RVK was not able to be a approved, the reports were presented, the summary of the reports were included with the 4th quarter Investment Performance in item 5.

3. **Approval of Minutes dated February 22, 2022**

A motion was made by Commissioner Webb to accept the minutes of the February 22, 2022, meeting with a second from Commissioner McAnally: all approved, there were no minutes to approve for the June 12 meeting, quorum was not met.

4. **Consultant Contract and Projected Expenditures for FY23 – Chairman McDaniel**

FY23 consultant contract with RVK was approved with an increase of 8.7% based on June 30, 2022 CPI, Commission Webb made the motion to approve the contract, Commissioner McAnally with a second to the motion with all approving.

5. **Investment Performance and Public Pension Plans Analysis – Jason Samansky and Kyle Hagmeier- RVK, Inc.**

Chairman McDaniel turned the meeting over to Jason Samansky of RVK.

Buildings are rising up, senior living, student housing, alternative housing, while there are concerns in housing in the States, there are a lot of opportunities for investing so as to not put everything into one type of investment. With so many people teleworking during covid, there was a lot of office space not being used, but with the turnaround, now there are homes and apartments that are being vacated because of going back to the workplace. Even though buildings or homes may be vacated, they are still an investment for the future.

Housing is an indicator of a possible recession. There is a shortage of housing, even more so in the next five to ten years, but there is a slowdown of building because of inflation. Interest rates make it more expensive, heading into the market, houses are no longer selling as quickly as they were, but they are still getting near to above asking prices.

Employment remains strong, if you are seeking a job, there are jobs out there and workers are still able to get good raises. Rising interest rates cause those ripples through the economy, but the companies that need cash flows still have to borrow, but at a higher rate. If you are looking to see if we are in a recession, it's very close that we are.

What does it mean with China decreasing their interest rates with the US increasing our rates. China decreased because they have not fully come back from lockdowns from covid, it's also an election year in China and Xi wants economic conditions to be as right as possible. There will be frictions between China and the US, companies will look towards other countries for supply chains and produce materials at a lower cost, that will affect China. China still has a competitive advantage when it comes to minerals and chips for cars.

Equity and fixed income markets declined during the quarter while credit spreads widened amidst a very difficult period for nearly all asset classes. The inflationary environment worsened as global central banks moved to tighten monetary policy. Supply chair disruptions tied to the war in Ukraine and China's zero-covid policy worked to keep inflation elevated and erode the purchasing power of consumers while global central banks were forced to indicate restrictive monetary actions. Tightening financial conditions, falling growth, and persistent inflationary pressure proved disastrous for investors.

Inflation as measured by the CPI, ticked up to 9.1% by the end of June, defying forecasts for moderation earlier in the quarter. Core CPI which the US Federal Reserve views as a better measure of true underlying inflation, accelerated at a more modest 5.9%. The tight labor market and its corresponding effects on wage growth remain top concerns for the Fed.

During the second quarter, the State Pension Funds produced negative returns ranging between -7.4% to -12.6% net of fees. For the fiscal year ended June 30, returns ranged from -3.9% to 14.9%. Relative to policy benchmarks, performance was mixed over the trailing 12-month period, as three out of seven plans outperformed their respective policy benchmark net of fees.

There are always questions on how the Oklahoma plans are doing. The plans have been challenged for the first half of the year, RVK would not recommend any changes to the plans. RVK believes that the Oklahoma plans are well-positioned and appropriately monitored for success in a manner that aligns with each Plan's objective, risk tolerance, constraints, and unique competitive advantages. More information will be provided at the November meeting regarding performance, the actuarial report will be presented at that time, also.

Trending pension topics: Covid-19 negatively impacted state finances with the most adverse impact felt by states that were more indebted going into the pandemic. According to a recent stress test conducted, the average project 2022 funded ratios for state and local pension plans will decline to just below 78%, if this holds, this would represent the single largest year-over-year decline since the Great Recession.

Plans have become more liquid with the amount in alternatives increasing and being sourced from traditional investment. They are more dependent on investment returns to bridge the gap between contributions and promised liabilities. With high valuations, the amount of private equity remains at elevated levels and plans are increasing their exposure to alternatives.

Preliminary returns are -13.9% for the calendar year to date on average for state and local plans, with no one able to earn their actuarial rate of return. Most plans have increased their allocations to alternatives as returns for both US equities and fixed income are projected to be muted and below most actuarial returns, a contrast from 20 years ago when plans could meet their actuarial assumptions through a 100% allocation to fixed income.

Updates on COLAs; There are eight states that have no COLA provisions for public retirees or currently suspending COLAs. The largest statewide retirement system has no COLA rules, but some municipalities may. Similar to Oklahoma, the state of New Jersey suspended COLA payments for all plans in2011 to avoid further funding rates increases until the plan reaches 80% funding.

No other discussion by the Commission.

6. Adjournment

A motion to adjourn was made with all in favor, meeting adjourned. The next regular commission meeting will meet November 15.

*Respectfully Submitted:*___________________________________
Ruth Ann Chicoine, Administrator