

MINUTES
**SPECIAL MEETING OF THE BOARD OF TRUSTEES OF THE OKLAHOMA
MUNICIPAL RETIREMENT FUND AND THE INVESTMENT COMMITTEE OF
OKLAHOMA MUNICIPAL RETIREMENT FUND**
August 30, 2018

1. Call To Order

The Investment Committee of the Oklahoma Municipal Retirement Fund met at Oklahoma Municipal Retirement Fund Offices, Oklahoma City, Oklahoma on August 30, 2018, at 8:34 a.m. with Investment Chair Luckett, Jr. presiding. On roll call the following members were present.

BOARD OF TRUSTEES PRESENT

Investment Committee: Jim Luckett, Jr., Retiree, City of Thomas
Robert Park, Retiree, City of Sallisaw (*arrived at 8:47a.m.*)
Ed Tinker, Retiree, City of Glenpool

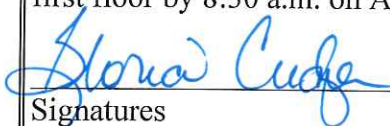
Others: Donna Doolen, Finance Director, City of Ada
Joe Don Dunham, City Manager, City of Alva
Tamera Johnson, Human Resources Director, City of Shawnee
Robert Johnston, City Manager, City of Frederick
Melissa Reames, City Finance Director, City of Stillwater
Tim Rooney, City Manager, City of Mustang (*arrived at 9:47a.m.*)

OTHERS PRESENT:

OkMRF Staff: Jodi Cox, Executive Director and CEO
Chris Whatley, Plan Advisor and Portfolio Strategist
Katie Girardi, Plan Advisor
Rhnea Stewart, Fund Accountant

Others: Kevin Moore, CFA, Asset Consulting Group
Jerry Sinish, Northern Trust

NOTICE: The agenda for the August 30, 2018, meeting was posted in the Columbus Square, first floor by 8:30 a.m. on August 28, 2018, by Gloria Cudjoe.


Signatures

Investment Committee Chair, Luckett, extended a welcome to all in attendance and called the meeting to order.

2. Continuing Education Regarding Private Market Investment and Implementation Concepts

Moore reviewed the private markets discussion beginning with the different private market assets; private equity, private credit and private real estate. These asset classes are characterized by longer lockup's and higher risk, with the expectation of returns higher than traditional asset classes. The return history of private equity has outperformed the broad markets over a 20-year horizon, however 10-year returns have been in line with the broad markets. Returns in the shorter period have been even more challenged. The return expectation, level of risk, and investment duration was highlighted along with terms for private credit, mezzanine, distressed, buyouts, growth equity and venture capital. Alternatively, private credit has seen more opportunities because of the financial crises. As traditional banks withdrew from the lending markets, private credit filled the space. Furthermore, the low interest rate environment has driven demand by funds seeking higher yielding assets. In Private Real Estate, we currently participate in two (2) of the three (3) areas; core and value add. Opportunistic real estate has the structure of a limited partnership. The target return should be about 2+% higher than other real estate investment vehicles.

A lengthy discussion of the fees paid by private investors focused on management fees, hurdle rates and clawback provisions. Moore also pointed out that management fees are paid on committed capital not invested capital. Furthermore, management fees will always be collected regardless of returns. However, if the manager does not meet the hurdle rate, an incentive fee would not be earned. Clawback provisions force the manager to return some of the incentive fee if they do not continue to earn above the hurdle rate. ACG would also charge a fee to help OkMRF develop the underlying portfolio similar to how the long/short portfolio is designed. Cox stressed that fee transparency and full disclosure is very important to OkMRF. ACG stated fully implementing a Private Equity portfolio from a fee transparency point would prove extremely difficult and might not be attainable.

If the Board chose to fund these asset classes, ACG's preferred implementation would be in this order: private equity, private real estate then private credit. The source of the assets to fund the strategy would depend on the asset being implemented; traditional equity would be used as the funding source for private equity and traditional fixed income would be used as the funding source for private debt.

Additional work on Staff would include paperwork, due diligence, managing cash inflows and outflows and manger monitoring (along with ACG). At the end of the investment commitment, the investment manager winds down the investment by liquidating and repaying investor capital. Therefore, on-going allocations to fund managers would need to be considered to ladder a portfolio into the future. If not, the program would wind down.

The Board asked and ACG stated they do have other clients who do not participate in this asset class.

Moore explained a model commitment and liquidity pacing chart showing projected cash flows over a five (5) year period. The schedule of contributions and distributions were reviewed to help see how a portfolio could be built.

Sinich described the process Northern Trust uses to account for these types of investments. There can be a 30 to 120-day lag in the reporting of the Net Asset Values (NAVs). They do consider fund flows, but there are lags. If a Member left, a NAV would be struck like a commingled fund. Members participate in the fund and the monthly NAV and units struck would be the level of assets they would receive if they terminated participation. The remaining municipalities would be subsequently unitized and result in their respective ownership of underlying asset classes being a higher allocation. This, more than likely, would cause OkMRF to rebalance after departure.

Northern Trust does have other clients, similar in size, participating in these types of investments.

The Committee is not opposed to receiving on-going education. The Chair asked sentiments of those in attendance, and it was consensus that this asset class with its' complexity, fee structure and required dedicated Staff time should not be recommended to the Board at this time. The Committee did however request ACG conduct due diligence on firms like Pantheon Ventures, who touts low fees, to present information to the Board at some future date.

3. Conduct Semi-Annual Investment Performance Review & Receive Quarterly Performance Report for Jun 30, 2018 as Presented by ACG

Moore began with a review of the portfolio risk/return metrics. Over a five (5) and ten (10) year period, the Defined Benefit (DB) fund has outperformed the benchmark seven (7) out of eight (8) times. Returns were looked at over the three (3) and five (5) year periods with comparisons to peer and other similar equity allocation funds. When compared to other funds with similar equity allocations (between 55% - 70%) and other public funds, the DB fund is in the top 32/25 percentiles on a three (3) year basis and 35/22 percentiles over a five (5) year basis respectively. Moore reviewed the white-label Defined Contribution investment options and their performance compared to peers. Growth and Value option is in top quartile, while Aggressive Equity option has been a bit challenged. International Investment Equity option has been a solid performer over longer time horizons yet struggled in the short run. The Total Yield Bond Option has been an average performer over long time horizons.

4. New Business

None

5. Adjourn

With no further discussion, meeting adjourned at 10:00 a.m.

A circular official seal for the Oklahoma Municipal Retirement Fund. The seal features the text "OKLAHOMA MUNICIPAL RETIREMENT FUND" around the perimeter and "OKLA" at the bottom. In the center, the word "SEAL" is prominently displayed. A signature in blue ink is written over the seal.
Jim Lockett, Jr., Investment Chair

A handwritten signature in blue ink, appearing to read "Donna Doolen", written over a horizontal line.
Donna Doolen, Chair

Respectfully submitted by:

A handwritten signature in black ink, appearing to read "Chris L. Whatley", written over a horizontal line.
Chris L. Whatley

