

**MEETING OF THE
BOARD OF INVESTORS OF THE
TOBACCO SETTLEMENT ENDOWMENT TRUST FUND
November 18, 2015**

State Regents Conference Room
655 Research Parkway, Suite 200
Oklahoma City, OK 73104

MINUTES

Call to Order

Treasurer Ken Miller, Chair, called the meeting to order at approximately 10:30 a.m. on Wednesday, November 18, 2015.

Confirmation of quorum

Members of the Board present for the meeting were Treasurer Ken Miller, Brenda Bolander, and Scott Vaughn.

Tim Allen, OST Deputy Treasurer for Communications and Program Administration, served as recording secretary.

Approval of minutes of the regular meeting on August 19, 2015

Mr. Vaughn moved to approve the minutes of the August 19, 2015 meeting. Ms. Bolander provided a second of the motion, which was unanimously approved by voice vote.

Presentation of report in regard to Tobacco Free Investments

Ms. Sandra Rochell, Senior Vice President, Bank of Oklahoma, verified that the fund was in compliance with the no-tobacco policy for the quarter ending September 30, 2015.

Presentation of annual audit for FY-15 presented by Finley & Cook

Nate Atchinson of Finley & Cook presented a report on the FY-15 annual audit of the TSET fund. The audit resulted in the finding of no reportable conditions.

Discussion and possible action regarding revised earnings based on the audit report

Ms. Kiran Nallayaghari, OST Deputy Director of Portfolio Accounting and Reporting, reported an additional \$3,347,479.62 was available for certification following completion of the FY-15 annual audit. As is standard practice for the board, the funds had been withheld from preliminary certification pending conclusion of the audit.

Treasurer Miller moved to certify an additional \$3,347,479.62 in FY-15 earnings for the TSET Board of Directors as per Article 5, Section 40 of the Oklahoma Constitution. Mr. Vaughn provided a second to the motion, which was unanimously adopted by voice vote.

Discussion and possible action on certifying reserve funds as specified in the Settlement Agreement and Release of all Claims

Ms. Nallayahgari presented a report showing an additional \$84,186.47 was available for the reserve fund created pursuant to the settlement agreement with the TSET Board of Directors on February 16, 2005.

Ms. Bolander moved to certify the additional \$84,186.47 for the reserve fund. Mr. Vaughn provided a second for the motion, which was unanimously adopted by voice vote.

Presentation and review by Steve Czech in regard to current investments in Czech SJC Onshore, Offshore I and Offshore II

Mr. Steve Czech with Czech Asset Management (CAM) said they are uniquely positioned to capitalize on attractive opportunities in direct lending. The TSET investments with CAM are in direct lending credit funds focused on originating floating rate, senior secured loans to U.S. middle-market borrowers. Mr. Czech stated that the regulatory remedies that were put in place after 2008 had resulted in a structural change in U.S. credit availability and that conventional sources of credit to the middle market are still impaired. Thus, CAM believes there are long-term opportunities to extend credit to this niche. He discussed fund objectives, capital call history, performance summaries, portfolio review and the watch list process.

Presentation and discussion of third quarter investment performance and current asset allocation by Don Stracke of NEPC

Mr. Stracke presented economic, market performance and TSET fund performance information for the third quarter of 2015. The market value of the Fund was \$947,620,571 with a year-to-date investment return of -2.2% and a -4.4% three-month return. The Fund's one-year return underperformed the policy index by 230 basis points, coming in at -1.70% and ranked in the 42nd percentile among a universe of its peers. Over the past three years, the return was 5.6% which ranked in the 64th percentile. Security selection by money managers was attributed to the quarterly benchmark underperformance, with the global tactical asset allocation being the largest deduction from performance.

Discussion and possible action regarding results of the private debt pacing plan study by Don Stracke of NEPC

Mr. Stracke presented information on the function of and rationale for private debt as a component of the TSET endowment. NEPC recommended an additional \$35 million allocation to direct lending, with consideration to money managers in various geographies such as the U.S., Europe and Asia. Also recommended was maintaining an active commitment pace in each vintage year going forward, being mindful of the Fund's liquidity needs and considering strategies that provide a combination of capital appreciation as well as near-term income distributions.

Discussion in regard to money manager watch list processes

Mr. Stracke explained that the board raised questions in June regarding possible watch list processes for fund managers. He presented a proposed policy document for possible action. Due to the absence of two board members, Treasurer Miller requested that any formal action be delayed until the next meeting.

Election of Vice Chair for 2016 for statutory requirement

Treasurer Miller moved to elect Ms. Bolander as board vice-chair for 2016. Mr. Vaughn provided a second to the motion, which was adopted by voice vote.

Discussion and possible action on meetings for 2016

Mr. Vaughn moved to adopt the 2016 meeting dates as proposed: February 24, June 8, August 24, and November 30. Treasurer Miller provided a second to the motion, which was unanimously adopted by voice vote.

Discussion and Possible Action of opting out of the Petrobras class action case to pursue separate claims

Ms. Murray presented information about a notification received from Western Asset regarding the legal action that some separately managed clients were considering pursuing litigation directly against Petrobras and not joining the class action suit. Cohen Milstein, Bernstein Liebhard and Robbins Geller the Fund's approved security monitoring law firms, were contacted to provide expertise and knowledge in regard to the opt-out litigation. Discussion then ensued and the findings were discussed.

Comments and questions from Board members

There were none.

New Business

There was none.

Adjournment

Upon a motion by Mr. Vaughn and a second by Ms. Bolander, the board approved adjournment of the meeting by voice vote at approximately 11:45 a.m.

Ken Miller, Chairman
Tobacco Settlement Endowment Trust Fund Board of Investors