

**MEETING OF THE
BOARD OF INVESTORS OF THE
OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT TRUST
November 30, 2016**

Oklahoma State Capitol Building
2300 N. Lincoln Blvd., Room 512-A
Oklahoma City, Oklahoma

MINUTES

Call to Order

Treasurer Ken Miller called the meeting to order at 10:30 a.m. on Wednesday, November 30, 2016.

Confirmation of quorum

Members of the Board present for the meeting were Chairman Miller, Brenda Bolander, Todd Dobson, and Donald Pape. Scott Vaughn was absent.

Others present were Sandra Rochell with the Bank of Oklahoma; Tracey Strader, John Woods, and Julie Bisbee with the TSET Board of Directors; Nate Atchison with Finley & Cook; Matthew LaFon with the Office of the Attorney General; and Lisa Murray, Kiran Nallayahgari, and Andrew Messer with the Office of the State Treasurer.

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

Approval of minutes of the regular meeting on August 24, 2016 and the special meeting on September 27, 2016

Mr. Pape moved to approve the minutes of the August 24, 2016 and September 27, 2016 meetings. 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, 2016.

Introduction of the new TSET Executive Director by Tracey Strader

Ms. Strader thanked the board for its work since inception of the trust in 2000. She then introduced John Woods, who is to become executive director of TSET upon her retirement at the end of the year.

Presentation by Barrow Hanley

Barrow Hanley was hired to manage large cap equity in 2005, with a current market value of \$107 million. Their performance was under the benchmark by -2.8% year-to-date, -3.2% for one-year and -1.1% over three-years. Kirby Smith and Lewis Ropp presented on behalf of Barrow Hanley. Mr. Smith said the exclusion of tobacco stocks reduced their returns in comparison to the benchmark, which does contain tobacco stock. As of Nov. 28, 2016, Mr. Smith stated that Barrow has outperformed the S&P

500 by 3% year-to-date. The portfolio is concentrated with only 45 stocks, allowing Barrow to not invest in areas of the market they feel are over-valued. Mr. Ropp said the fund provides downside protection through disciplined portfolio strategies, executed over long time periods.

Presentation of annual audit for FY-16 presented by Finley & Cook

Nate Atchison with Finley & Cook reviewed the audit report of the financial statements of the Tobacco Settlement Endowment Trust Fund for the period ending June 30, 2016. The audit found no reportable conditions.

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

Following presentation by Ms. Nallayahgari, and upon a motion by Ms. Bolander and a second by Mr. Dobson, the board unanimously approved the certification of an additional \$829,485.04 in FY-16 earnings to the Board of Directors as calculated according to the Constitutional language in Article X, Section 40.

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

Following discussion, and upon a motion by Mr. Pape and a second by Ms. Bolander, the board unanimously approved the certification of an additional \$18,789,437.64 from a reserve established in a joint agreement with the TSET Board of Directors that was executed on February 16, 2012.

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

Mr. Stracke presented a report on market conditions and performance of the TSET investment fund during the third quarter of calendar year 2016. The market value of the Trust was \$1,041,827,360 as of September 30, 2016. The one-year return was 9.9% ranking the Trust in the twenty-third percentile of the peer universe and outpaced the 5% real return spending target. The three-year return was 5.6% gross of fees, which ranked the portfolio in the thirty-seventh percentile. The Trust's performance over a five-year period returned 8.5% gross of fees, ranking in the fifty-fourth percentile.

Discussion of direct lending options

Mr. Stracke suggested additional capital in U.S. direct lending, as the Trust continues to be underweight in private debt. He recommended a manager search for a mandate of \$30 million be conducted in the U.S. direct lending space and to invite Medley and Czech, the current managers, to participate in the RFP process.

Preliminary discussion of new asset class considerations

Treasurer Miller requested the Board review some of asset class considerations that were made during the investment consulting bid process and come back for a discussion at the next meeting in February.

Election of Vice Chair for 2017 for statutory requirement

Mr. Pape made a motion to elect Ms. Bolander as vice chair of the Board of Investors for 2017. Upon a second by Chairman Miller, the board unanimously adopted the motion by voice vote.

Discussion and possible action on meetings for 2017

Upon a motion by Mr. Pape and a second by Mr. Dobson, the board unanimously approved by voice vote the schedule of regular meetings for 2017 to be held on February 22, June 14, August 23 and November 29.

New Business

Chairman Miller said he had been contacted by The Humphrey's Company in regard to the possibility of TSET considering making a small investment in their new real estate Fund II. The Board agreed to discuss at the next meeting the possibility of a formalized process to review emerging money managers for Oklahoma-based firms.

Todd Dobson inquired if a report could be provided reflecting quarterly year-to-date estimates of projected TSET earnings. Ms. Nallayahgari said reporting timing issues occur with the private partnerships, so numbers would be subject to caveats. Mr. Stracke suggested that smaller investments in the private partnerships could be excluded in the estimate report. Treasurer Miller asked that Ms. Nallayahgari and Ms. Murray work together to determine such report.

Adjournment

Upon a motion by Mr. Pape and a second by Mr. Dobson, the board approved adjournment of the meeting by voice vote at 12:50 p.m.

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