MEETING OF THE
BOARD OF INVESTORS OF THE
OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT TRUST
June 21, 2017

Oklahoma State Capitol Building
2300 N. Lincoln Blvd., Governor's Large Conference Room
Oklahoma City, Oklahoma

MINUTES

Call to Order

Treasurer Ken Miller called the meeting to order at 10:32 a.m. on Wednesday, June 21, 2017.

Confirmation of quorum

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

Others present were Sandra Rochell and Paul Pustmueller with the Bank of Oklahoma, and Lisa Murray, Sherian Kerlin, and Charles Hover 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 February 22, 2017

Mr. Pape moved to approve the minutes of the February 22, 2017 meeting. Ms. Bolander provided a second to 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 March 31, 2017.

Discussion and review of U.S. direct lending manager search by Don Stracke with NEPC

The request for proposal (RFP) for the $50 million U.S. direct lending mandate was issued by NEPC on March 23 and manager responses were due by May 1. Managers were required to have at least two tax-exempt public fund clients, minimum assets under management of $750 million and the firms must accept capital until at least the end of September. Eighteen managers submitted proposals and were evaluated on investment expertise, personnel, administration and cost. Five firms were selected as semi-finalists. Those firms were TCP, Monroe, Comvest, Benefit Street and Kayne Anderson. Mr. Stracke and Ms. Murray interviewed the semi-finalists, via conference call. The finalists were Benefit Street and Monroe Capital.

Direct lending presentation by Benefit Street Partners

Blair Faulstich, Managing Director and Natalia Ilgin, Vice President, began the presentation for Benefit Street Partners (BSP). BSP has $21 billion assets under management and is the credit investment arm of

Providence Equity Partners. The private debt/opportunistic credit portion of the firm has 90 investment professionals and offices in New York, Houston, Providence and Charlotte. BSP has a nine year investment record, a focus on core middle market firms with earnings before depreciation, amortization and taxes (EBDAT) of +$75 million. The BSP Senior Opportunities Private Debt (SOPD) fund has total commitments of $216 million and has called approximately 55% of the comingled fund capital with a hard cap of $500 million. SOPD focuses on a capital preservation strategy and is comprised of 96% first liens, has 90% floating rate debt and less than 2% credit losses. The SOPD first year internal rate of return (IRR) was 19.2% net of fees, but the fund is targeting 9% IRR net of fees. As of March 31, 2017 SOPD had invested in 69 issuers for a total cost of $240 million.

Direct lending presentation by Monroe Capital

Michael Egan, Chief Credit Officer and Megan Cruse, who is the Director of Investor Relations, began the presentation for Monroe. Monroe Capital was formed in 2004, but the founders of the firm had been together since 1999. They are headquartered in Chicago and have 80 employees including 50 investment professionals. The firm has seven additional origination offices in Atlanta, Boston, Dallas, Los Angeles, New York, San Francisco and Toronto. Monroe focuses on private credit, direct lending to the lower middle market with firms having EBDAT of $3 million-$30 million. The firm has a reputation for timely, efficient and seamless deal executions. They have executed 235 deals and manage $4.1 billion in capital. Unlevered returns have historically been in the 12% range, with the fund target being 8%-10% and a coupon of 9%-10%. The target return for the levered fund is approximately 14%. Deals are approximately 40% non-sponsored and they close about 60 deals annually. The fund is diversified with many deals in health care, business services and verticals in technology, media and consumer products. Monroe requires senior liens on assets with often a pledge of company stock, and has had zero principal losses. The Monroe Capital Private Credit Fund III has a target capital raise of $800 million.

Discussion and possible action on the selection of the U.S. direct lending investment manager

Upon discussion by the board, Mr. Pape moved to hire Monroe Capital at 100 percent of the total RFP mandate. A second was provided by Mr. Vaughn. The motion was unanimously adopted by roll-call vote.

Discussion by Don Stracke regarding possible risk mitigation strategies to minimize fluctuations in the Fund's interest earnings

Mr. Stracke said that NEPC had been asked by the Chairman of the TSET Board of Directors, Don Millican, to explore possible ways to smooth the certified earnings on an annual basis to help plan for multi-year grants. The portfolio was designed to be stable, less volatile and to generate a lot of income. The portfolio has a lower standard deviation, representing less risk than 85% of endowments in the universe and contains 20% equity which is below the median universe of 29% to this allocation. Mr. Stracke stated the Trust is unique in comparison to other endowments who have spending policies which allow a steady outflow of funds, and not one based on actual portfolio earnings as required by State TSET statutes. He discussed several possible strategies that NEPC researched, but none were viable options. Chairman Miller posed the question as to whether earnings could be certified on a five year rolling average and the Board requested Matt Lafon, Assistant Attorney General, to research this option.

Discussion of possible action on Fund budgetary matters: FY-2017 Revised Budget Approval and FY-2018 Budget Approval

Mr. Pape moved to approve the revised FY-2017 and FY-2018 budgets. Ms. Bolander seconded the motion, which was approved by unanimous roll-call vote.

Approval of intra-agency administrative and legal contracts

Mr. Pape moved to approve the board's annual contracts for administrative and legal services, with a second provided by Mr. Vaughn. The motion was unanimously adopted by roll-call vote.

Discussion and review of custodial and security lending services search by Don Stracke

NEPC issued a request for proposal on March 27th for core custody bank services and security lending as part of the standard contracting process. The current provider custodian was Bank of Oklahoma (BOK) and Bank of New York Mellon for security lending services. Proposals were due on April 26th and Bank of Oklahoma, Northern Trust, BMO, U.S. Bank and Wells Fargo responded. BOK had competitive total costs with low asset-based and transaction based fees, along with low pricing for compliance monitoring. BMO had the lowest overall pricing, but did not include compliance costs in the bid and also had the highest estimated security lending revenues. Mr. Stracke said reviewing custody services is very complex and would require NEPC to do site visits to both BOK and BMO offices. He said the total estimated core custody fee costs for BOK and BMO were very comparable. The BMO security lending revenue estimate was almost twice the amount as the four other banks, calling into question the accuracy of the estimate and NEPC was not convinced they could deliver that amount of revenue. The Board agreed that they were satisfied with BOK's customer service and did not want to change banks for custodial or securities lending services.

Discussion and possible action on financial institution selection for custodial and security lending services

Upon discussion by the board, Mr. Vaughn moved to hire Bank of Oklahoma to provide custodian and security lending services for the Fund. Chairman Miller provided a second to the motion, which was unanimously adopted by roll-call vote.

Presentation and discussion of FY-17 third quarter investment performance and current asset allocation

The Fund's market value as of March 31, 2017 was $1,061,506,110 and earned 4.1% for the third quarter of FY 17. The one-year return was 10.1%, ranking in the 74th percentile, outpacing the Trust's 5% real return spending target. In comparison, the S&P 500 returned 6.1% for the quarter and 17.2% for the year, the Barclays Aggregate earned 0.8% and 0.4% and the MSCI EAFE returned 7.2% and 11.7% respectively, for the quarter and year. Over the last three year, the Trust returned 4.5% net of fees and ranked in the 42nd percentile with strong risk-adjusted returns. The Trust's performance over the five year period was 6.5% net of fees, ranking in the 61st percentile. The portfolio asset allocation was comprised of 25% fixed income, 8% dynamic fixed income, 27% domestic equity, 16% international equity, 5% private debt, 10% global tactical and 9% in real estate.

Discussion and possible action for approval of the Reams request for consent of agreement document

Carillon Tower Advisers, a wholly owned subsidiary of Raymond James Financial, will be purchasing Scout Investments by the end of 2017. Reams Asset Management is a division of Scout Investments. Even after the acquisition, there will be no change to Reams' investment philosophy, process or team. Ms. Murray said that Mr. Lafon had reviewed the Consent to Assignment of Agreement.

Upon discussion, Mr. Pape moved to approve the Reams consent agreement. Ms. Bolander provided a second to the motion, which was unanimously adopted by voice vote.

Discussion of estimated FY-17 earnings as of March 31, 2017 by Sherian Kerlin, Director of Portfolio Accounting and Reporting

Sherian Kerlin, Director of Portfolio Accounting, said that as of March 31 the estimated earnings for certification was $27,106,140.

Comments and questions from board members

There were none.

New business

There was none.

Adjournment

Upon a motion by Mr. Pape and a second by Ms. Bolander, the board unanimously voted to adjourn the meeting at 1:05 p.m.

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