

**MEETING OF THE
BOARD OF INVESTORS OF THE
OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT TRUST
August 23, 2017**

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

MINUTES

Call to Order

Vice-chair Brenda Bolander called the meeting to order at 10:32 a.m. on Wednesday, August 23, 2017.

Confirmation of quorum

Members of the Board present for the meeting were Vice Chair Bolander, Scott Vaughn, Todd Dobson, Donald Pape and OST Chief Investment Officer Lisa Murray as Chairman Ken Miller's designee.

Others present were Sandra Rochell and Paul Pustmueller with the Bank of Oklahoma, Anthony Ferrara with NEPC, John Woods and Julie Bisbee with the TSET Board of Directors, and Sherian Kerlin, Charles Hover and Phyllis Chan 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 June 21, 2017

Mr. Vaughn moved to approve the minutes of the June 21, 2017 meeting. Mr. Pape 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 June 30, 2017.

Discussion and possible action on FY 2017 Certified Earnings

Ms. Sherian Kerlin presented data showing investment performance by the TSET fund during the just-ended fiscal year. Mr. Dobson moved to preliminarily certify investment earnings of \$38,078,419.34 from FY 2017 for use by the TSET Board of Directors, as recommended by staff. Mr. Vaughn provided a second to the motion, which was unanimously adopted by voice vote.

Discussion by Matt Lafon, Assistant Attorney General, in regard to considering a rolling average to determine certified earnings amounts

Mr. Lafon said the Oklahoma Constitution gives the Board of Directors the discretion to use the amount of accrued earnings from the past fiscal year, and the amount that is not used remains in the Trust Fund. The Board of Directors can instruct the Board of Investors to set aside cash reserves out of earnings from the Trust Fund to ensure that future expenses of both Boards and the State Treasurer may be funded when

there are insufficient funds available. Section 40 of Title 10 of the Oklahoma Constitution suggests the Board of Investors can only certify earnings that actually accrued to the Trust Fund during the preceding fiscal year.

Presentation and discussion of FY 2017 fourth quarter investment performance

Tony Ferrara, with NEPC, presented a report on market conditions and performance of the TSET investment fund during the fourth quarter of FY17. The Trust market value as of June 30, 2017 was \$1,136,902,017. The investment return for FY17 was 11.4% which ranked the Trust in the seventy-fifth percentile of the InvestorForce All-Endowment universe and strongly outpaced the 5% real return spending target. Target allocations consisted of 42% equities, 29% fixed income and 29% for alternatives. The Trust returned 4.5% over the last three years and ranked in the forty-second percentile. Over a five year period, the Trust earned 7.4% with risk-adjusted returns ranking in the sixty-fifth percentile. Mr. Ferrara said that beginning with this quarterly report, all returns were reported net of fees.

Educational presentation on Master Limited Partnerships

Don Stracke began by saying that NEPC recommends that the Trust should consider at some point in the near future investing in Master Limited Partnerships (MLP), as they can provide a source of income. Much of this income is considered return of principal and Mr. Stracke said more research would need to be done with Bank of Oklahoma regarding how income is treated from an accounting perspective. MLPs are currently earning approximately 6% and could increase additional certifiable earnings for the Trust. Mr. Stracke suggested that as a practitioner, a MLP money manager be invited to make an educational presentation so that the Board could gain more confidence in the asset class. Mr. Stracke then provided general information in regard to the history, characteristics, investment risks and market dynamics of MLPs.

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 Mr. Dobson, the board unanimously voted to adjourn the meeting at 11:53 a.m.

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