

**MINUTES OF THE
REGULAR MEETING OF THE BOARD OF INVESTORS FOR THE OKLAHOMA TOBACCO
SETTLEMENT ENDOWMENT TRUST FUND**

August 23, 2018

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

Call to Order

Treasurer Ken Miller, board chair, called the meeting to order at 9:30 a.m. on Thursday, August 23, 2018

Confirmation of quorum

Members of the Board present for the meeting were Chair Miller, Vice Chair Brenda Bolander, and Todd Dobson. The two remaining board positions were vacant.

Others present were OST Chief Investment Officer Lisa Murray, Sandra Rochelle and Paul Pustmueller with Bank of Oklahoma, Charles Hover with the Office of the State Treasurer, John Woods with the staff of the TSET Board of Directors, Matthew LaFon, Assistant Attorney General and Counsel to the Board, and Tyler Talley with E-Capitol.

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

Approval of minutes from the meeting on June 20, 2018

Upon a motion by Mr. Dobson and a second by Ms. Bolander, the minutes from the June 20, 2018 meeting of the Board of Investors 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 the fund was in compliance with the no-tobacco policy for the quarter ending June 30, 2018.

Presentation and discussion of FY-18 fourth quarter investment performance and current asset allocation

Don Stracke, with consultant NEPC, began by providing an economic update with the second quarter gross domestic product increasing to a robust 4.1% and the unemployment rate declining to 4%. The U.S. yield curve continued to flatten as the second Fed rate hike of 2018 pushed short-term interest rates higher. For the second quarter, the S&P 500 was up 3.4%, the MSCI EAFE (net USD) was down -1.2%, Barclay's Aggregate down at -0.2% and Bank of America ML U.S. high yield was up 0.7%. Crude oil increased 14.2% during the quarter as a result of tighter global supply and U.S.-imposed sanctions on Iran. Master Limited Partners reflected gains of 8.1%. The market value of the Trust was \$1,229,347,152 as of June 30, 2018. The quarterly return was 0.9% and the fiscal year 2018 return came in at 7.6%, ranking in the 44th percentile and outpaced the 5% real return spending target. The Trust's three-year return was 6.6% and the five-year return was 6.9%. All reported returns were net of fees. Mr. Stracke said the portfolio was constructed to be more

conservative and to have lower than average volatility. The interim target portfolio asset allocation was discussed. The biggest allocation not meeting the target is in private debt, as the Trust is still waiting on Monroe to make capital calls. Monroe was currently investing capital using a credit line and not calling capital, with their goal to make fewer capital calls. The real estate allocation is also slightly underinvested, with core bonds and equity being in excess of the targets.

Discussion and action on FY-18 Certified Earnings

Mr. Hover, OST Director of Portfolio Accounting and Reporting, informed the board that \$64,771,764.07 was available for preliminary certification from FY-18 investment performance of the fund pending completion of an annual audit.

Mr. Dobson moved to certify the earnings as presented. The motion was seconded by Ms. Bolander and it was adopted by voice vote.

Discussion and action regarding adjustment of the Trust portfolio asset allocation

NEPC recommended changes be made to the asset allocation to increase focus on earnings stability in order to fund programs, emphasizing yield over capital appreciation. In order to fund the new MLP mandate with Tortoise, Mr. Stracke said that exposure should be decreased by 2% in Western Asset and the Reams allocation should be reduced by 2%. In addition, Invesco high yield should be decreased by 1%.

Upon a motion by Mr. Dobson and a second by Ms. Bolander, the recommended adjustments, as presented, were unanimously approved by voice vote of the board.

Discussion and possible action regarding the master limited partnership contract with Tortoise Capital Advisers

Mr. Stracke said the Board had asked if an incentive-based fee structure with Tortoise might be considered. Tortoise did not have an incentive-based fee currently in place, but proposed a base fee of 30 basis points and 20% of any outperformance over the index up to a maximum total fee of 120 basis points (30 basis points base fee plus 90 basis points incentive fee). NEPC recommended the Board adopt the flat fee of 75 basis points, instead of the incentive based fee, which was reflected in the Tortoise proposal.

The board opted to take no action on the recommendation, leaving the originally approved contract unchanged.

Update on the status of the SJC Onshore Direct Lending and SJC Offshore Capital Finance Fund

Lisa Murray, Chief Investment Officer, said the letter placed in the agenda packet provides the Board with the status of the wind-down of the SJC Onshore and Offshore funds as of June 30 and also included some frequently asked questions.

Discussion and action regarding revisions to the Investment Policy Statement

The Investment Policy Statement had been updated two years ago, and it was time to review for any necessary revisions. Mr. Stracke provided an updated version of the document and said there were

some minor changes. The changes included the updated long-term asset allocation, references to MLP's were added, and some minor editing and formatting.

A motion by Ms. Bolander and a second by Mr. Dobson were made to approve the revisions to the investment policy statement as presented. The motion was unanimously adopted by voice vote.

Comments and questions from Board members

There were none.

New business

There was none.

Adjournment

Upon a motion by Ms. Bolander and a second by Mr. Dobson, the board voted unanimously to adjourn at 10:20 a.m.

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