

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

November 12, 2019

Teachers Retirement System Board Room
2500 N. Lincoln Blvd., Fifth Floor
Oklahoma City, Oklahoma

Call to order

Treasurer Randy McDaniel, board chair, called the meeting to order at 10:30 a.m. on Tuesday, November 12, 2019.

Confirmation of quorum

Members of the Board present for the meeting were Chair McDaniel, Vice Chair Brenda Bolander, Debbie Mueggenborg and Bill Schonacher.

Others present were Paul Pustmueller and Michael Sweeney with Bank of Oklahoma, OST Chief Investment Officer Lisa Murray, OST Director of Portfolio Accounting and Reporting Charles Hover and Assistant Attorney General Matthew Lafon, counsel to the Board.

Tim Allen, OST Deputy Treasurer for Communication & Program Administration, served as recording secretary.

Approval of minutes from the meeting on August 13, 2019

Ms. Bolander moved to approve the minutes of the August 13, 2019 meeting of the board. Ms. Mueggenborg seconded and the motion was unanimously adopted.

Presentation of report in regard to Tobacco Free Investments

Paul Pustmueller with Bank of Oklahoma verified the Trust was in compliance with the no-tobacco policy for the quarter ending September 30, 2019.

Discussion and Possible Action regarding revised earnings based on the Audit Report by Finley & Cook.

Upon completion of the FY-19 annual audit, staff recommended the board approve a reduction of \$43,573.52 in earnings for use by the Board of Directors, as calculated according to Article X, Section 40, of the Oklahoma Constitution

A motion adopting the staff recommendation was made by Ms. Bolander and Mr. Schonacher provided a second. The motion was unanimously approved.

Discussion and Possible Action on certifying reserve funds as specified in the Settlement Agreement and Release of all Claims.

Staff presented information showing that no funds would be required for certification for FY-19 from the reserves, as established in the agreement between and Board of Investors and Board of Directors in February 2012.

A motion adopting the staff recommendation was made by Ms. Mueggenborg and seconded by Mr. Schonacher. The motion was unanimously approved.

Presentation by Earnest Partners

Don Stracke, Senior Consultant with NEPC, said Earnest Partners was invited to speak to the Board as an example of an existing manager who was hired in 2003 and has done extremely well in managing funds for TSET. Mr. Patmon Malcom, Partner, and Pavel Sokolov, Investment

Manager, made presentations to the Board. Earnest manages the small & middle capitalization core strategy and has had a return of 12% since inception. The one-year and five-year returns as of September 30, 2019 were 1.85% and 10.99%, respectively. These returns significantly beat their benchmarks. The investment process, strategies and the firm's personnel were discussed. The bulk of the portfolio is invested in sector weightings of information technology, industrials, financials and consumer discretionary.

Discussion and update on private credit

Mr. Stracke said the private credit markets were a rapidly evolving asset class and NEPC would be updating their annual capital market outlook in December. As such, he would present an updated portfolio recommendation and implementation plan for consideration at the next quarterly Board meeting.

Presentation and discussion of third quarter investment performance and current asset allocation

Tony Ferrara, with NEPC, provided a brief update on economic and market updates. The market value of the Trust as of September 30, 2019 was \$1,297,065,728. The earnings for the quarter, FY20 and year-to-date were 0.3%, 3.2% and 11.3% net of fees. The 5-year return was 5.6% which ranked the Trust in the 43rd percentile of the InvestorForce all endowment net universe. The Trust portfolio allocation was comprised of 43% equity, 31% fixed income, 9% global tactical allocation, 9% real estate, 4% private debt and 4% master limited partnership.

Discussion and possible action regarding investment options for a portion of the current real estate allocation

Mr. Stracke recommended that a request for proposal for a real estate debt manager be issued with a target of 10%, or approximately \$35 million. Real estate debt, instead of additional core or value-add exposure, would provide for additional portfolio diversification and would offer attractive risk-adjusted net returns of approximately 8-9%. Real estate debt is also higher in the capital structure, providing some downside protection in the event of moderate asset declines.

Ms. Mueggenborg moved to approve the request for proposals for an additional \$35 million mandate to debt exposure real estate. Ms. Bolander provided a second. The motion was unanimously adopted.

Mr. Stracke stated that as discussed at the August board meeting, NEPC had downgraded UBS Trumbull from a 1-rated to 3-rated, or neutral option. The UBS fund had underperformed on an unlevered basis and recommended to terminate the manager. Mr. Stracke said the Trust would need to provide a redemption notice to UBS, as there was a large exit pool and it could take at least 12-18 months to obtain the proceeds from the liquidation.

Ms. Mueggenborg moved to approve the redemption of the entire UBS real estate investment. The motion was seconded by Mr. Schnacher and was unanimously approved.

Discussion of estimated FY-20 earnings as of September 30, 2019

Mr. Hover presented a report to the Board showing calculation of FY20 estimated earnings as of September 30, 2019 was \$12,759,398. This was in comparison to \$13,659,999 in September 2018.

Update on the status of the SJC Offshore Capital Finance Fund

Lisa Murray said the information provided to the Board reflected that the SJC Offshore Capital Finance Fund had provided its final distribution to the Trust and was officially closed.

Election of Vice Chair for 2020 for statutory requirement

Mr. Schnacher made a motion to elect Mr. Todd Dobson as vice chair of the board during 2020, which was seconded by Ms. Bolander. The motion was unanimously adopted.

Discussion and possible action on meetings for 2020

Upon a motion by Ms. Mueggenborg and a second by Ms. Bolander, the board unanimously approved quarterly meetings to be held on February 18, June 16, August 18, and November 17, all beginning at 10:30 a.m.

Adjournment

By unanimous vote upon a motion by Ms. Bolander and a second by Mr. Schonacher, the meeting was declared adjourned at approximately 12:00 p.m.

Randy McDaniel, Chair

Tobacco Settlement Endowment Trust Fund Board of Investors