

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

February 26, 2019

Oklahoma Teachers Retirement System  
2500 N. Lincoln, 5<sup>th</sup> Floor Board Room  
Oklahoma City, Oklahoma

**Call to order**

Treasurer Randy McDaniel, board chair, called the meeting to order at 10:30 a.m. on Tuesday, February 26, 2019.

**Conformation of quorum**

Members of the Board present for the meeting were Chair McDaniel, 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, Paul Pustmueller and Demi Jones with Bank of Oklahoma, OST Director of Portfolio Accounting and Reporting Charles Hover, and Assistant Attorney General Matthew LaFon, counsel to the board.

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

**Approval of minutes from the meetings on November 28, 2018**

Mr. Dobson moved to approve the minutes of the November 28, 2018 meeting of the board. Ms. Bolander provided a second, and the motion was unanimously adopted 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 December 31, 2018.

**Presentation by Reams Asset Management**

Mr. Clark Holland, portfolio manager with Reams Asset Management, was asked to make a presentation in regard to what markets the unconstrained bond fund would excel and address the benchmark that is utilized for the fund. He began by talking about Reams investment philosophy. The market volatility at the end of 2018 was an opportunity to invest in investment grade corporate bonds at more reasonable valuations and to increase the high yield bond allocation from 2% to 12%. Reams moved from an extremely defensive to a moderately defensive stance. The fund duration was approximately two years, in comparison to six years for the Barclay's Aggregate. They do not find it compelling to take on much interest rate risk and the fund does better when there is more market volatility, which has diminished over-all in the last five years. There was discussion in regard to the current benchmark of the ICE BAML 3-month LIBOR Constant Maturity Index. Don Stracke said at the next board meeting he would have an NEPC endowment foundation specialists discuss some different benchmarks for the current portfolio structure.

## **Discussion and possible action regarding NEPC's memo concerning international equity manager country weight restrictions**

Mr. Stracke said Schroders had requested additional flexibility to invest in China and it became clear the Trust did not have any country weight restrictions. Some degree of maximum exposure from the benchmark is appropriate, because the Trust is a conservative investor and we want to have core exposure to non-U.S. equity markets, but there is some amount of differential exposure from the benchmark that would cause concern. NEPC's recommendation was to adopt a country weight restriction of plus or minus 7% of the benchmark. Discussion ensued by the Board in regard to different methods and levels of restrictions.

Mr. Dobson made a motion, with a second from Ms. Bolander, which was unanimously approved that if the country weight in the benchmark exceeds 10%, exposure to the country must be within plus or minus 7% of the country's weight in the benchmark or if the benchmark country weight is less than 10%, exposure to that country must be within plus or minus 5% of the country's weight in the benchmark. This would go into effect on March 31, 2019.

## **Discussion and possible action regarding NEPC's 2019 observations and forecasts**

NEPC's expected returns were discussed by Mr. Stracke. The 5-7 return forecast for the Trust increased from 5.6% for the previous year to 6.4% in 2019. The 30-year forecast went from 6.9% to 7.4%. The expected volatility for both short and long-term assumptions increased with NEPC projecting that 2019 may prove to be a difficult year for markets, due to the U.S. economy transitioning from a mid- to late-cycle environment and slowing global growth. There was no recommended change to the Trust's current asset allocation with long-term targets continuing at 25% for U.S. equity, 15% for non-U.S. equity, 10% for core bonds, 10% for private debt, 6% for high yield bonds, 8% for absolute return fixed income, 2% for dynamic fixed income, 5% for master limited partnerships, 9% for global tactical and 10% for real estate. Chairman McDaniel requested further discussion be conducted with Mr. Stracke and NEPC's expertise to further analyze the Trust's asset allocation and strategies, long-term goals and constraints.

## **Presentation and discussion of fourth quarter investment performance and current asset allocation**

The Trust's performance summary was discussed with the quarterly return coming in at -7.3% and ranking in the 31<sup>st</sup> percentile. The fiscal year-to-date return was -4.9% and -4.3% for 2018. The Trust continued to have a low risk-adjusted return with a standard deviation lower than 75% of endowments and trusts in the comparison universe.

## **Discussion regarding the performance of Medley Opportunity Fund II**

Mr. Stracke said he had a conference call with manager Medley Capital to discuss their performance and corporate activities. He said it was important to note that Medley is a private partnership, so there is not a viable option to exit the investment. In summary, Medley had a higher than expected amount of credit impairment, realized capital exceeds drawn capital since inception and expected distributions in 2019 to the Trust will be approximately \$15.9 million.

## **Discussion of estimated FY-19 earnings as of December 31, 2018**

Mr. Hover presented a report to the board showing calculation of FY-19 estimated earnings through the midpoint of the fiscal year. The report showed that the estimated earnings available to the Board of Directors as of December 31, 2018 for FY-19 would be \$23,133,174.12.

#### **Discussion and possible action on future meeting dates**

In order to accommodate attendance of all essential personnel, the board voted unanimously to change the dates of the three remaining meetings of the Board of Investors to June 18, August 13, and November 12 at a location to be determined. The motion was made by Ms. Bolander and seconded by Chairman McDaniel.

#### **Comments and questions from Board members**

There were none.

#### **New business**

There was none.

#### **Adjournment**

Mr. Dobson moved to adjourn the meeting and Ms. Bolander provided a second. The motion was unanimously approved by voice vote at 12:04 p.m.

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Randy McDaniel, Chair  
Tobacco Settlement Endowment Trust Fund Board of Investors