

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

March 12, 2020

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 10:33 a.m. on Thursday, March 12, 2020.

Confirmation of quorum

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

Others present were Paul Pustmueller, Michael Sweeney, Robert Kindt, Evan Walter, and Laura Gavula with Bank of Oklahoma, OST Chief Investment Officer Lisa Murray, OST Director of Portfolio Accounting and Reporting Charles Hover, OST Manager of Portfolio Accounting and Reporting Phyllis Chan, 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 November 12, 2019

Ms. Bolander moved to approve the minutes of the November 12, 2019 meeting of the board. Mr. Schonacher provided a second and the motion was unanimously adopted by roll call vote.

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 December 31, 2019.

Presentation of annual audit for FY-19 by Finley & Cook

The annual audit for FY-19 of the Oklahoma Tobacco Settlement Endowment Trust was presented by Dan Bledsoe of Finley & Cook. No reportable conditions were found.

Discussion and possible action regarding NEPC's 2020 observations and forecasts

Don Stracke, Senior Consultant with NEPC, said the TSET portfolio was well diversified. When NEPC applied the Trust portfolio asset mix to their updated 10-year return assumptions, as of December 31, 2019, the target expected return for 2020 was 5.5% in comparison to 6.4% for 2019. The 90 basis point decrease of expected return reflected the realization that stock prices increased during 2019, but stock earnings did not increase as much as prices. In addition, fixed income earnings declined precipitously so investment opportunities going forward have declined. Mr. Stracke then discussed the 2020 asset class overview, key market themes, development of NEPC assumptions, an inflation overview and the current market environment.

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

Mr. Stracke said the market value of the Trust was \$1.35 billion as of December 31, 2019. The 3-month portfolio return was 5% and the fiscal year-to-date earnings were 5.4%. The return for 2019 was 17% which ranked the Trust in the 69th percentile, outperforming the 5% spending rate plus inflation. The 3-year annualized standard deviation for the Trust was 6.4%, with a ranking in the 28th percentile reflecting that 72% of the endowments in the universe took more investment risk. Mr. Stracke then discussed the returns for several money managers, in comparison to their benchmarks.

Status update in regard to the request for proposals issued for the real estate debt mandate

The Board authorized replacing UBS with a new real estate debt money manager at their November 12th meeting, with a request for proposal mandate for approximately \$30 million. Mr. Stracke said NEPC had received 17 proposals reflecting a wide range of net internal rate of return (IRR) targets, ranging from 6%-7% to a high of 10%-13%. He stated that the IRR differences usually corresponded to a differing level of risk through either leverage degree of income certainty. NEPC would like to emphasize strategies that provide income durability and/or the potential for income growth. The bid process was on target and they anticipated that finalists firms would be interviewed by the Board at the June meeting, with a manager being selected at that time.

Discussion and Possible Action regarding a request for information for security fraud case action monitoring

Chairman McDaniel stated that the board has three signed agreements with security fraud class action law firms, Cohen Milstein, Robbins Geller, and Bernstein Liebhard, to monitor the TSET portfolio. At the time the agreements were executed, following a Request for Information process, the portfolio contained \$755 million. As of December 31, 2019, the fund contained \$1.35 billion, and the chair suggested that additional firms might need to be considered to also provide the monitoring service. Another firm – Pomerantz LLP – recently requested to be considered to be allowed to monitor the portfolio. Upon discussion, Ms. Mueggenborg made a motion to issue a Request for Information for securities fraud class action monitoring. Ms. Bolander provided a second to the motion, with was unanimously adopted by roll call vote.

Election to fill vacancy for the remaining term of the vice-chair for 2020, due to current vice-chair no long being on the board

During the November 2019 meeting, then-board member Todd Dobson was selected as vice-chair. In 2020, Mr. Dobson was not reappointed to the board, thus leaving the position vacant.

Upon a motion by Chairman McDaniel and a second by Mr. Schonacher, the board voted unanimously by roll call vote to select Ms. Mueggenborg as vice-chair during calendar year 2020.

Discussion and Possible Action regarding the processing of class action lawsuits and settlements involving the Board of Investors

Legal counsel to the board, Assistant Attorney General Matthew LaFon, said that it had come to his attention last year when the Board opted into the Citibank class action lawsuit that we needed to research and develop a process to more formally address the determination of participation in class action lawsuits. He said that he had been working with Sandra Rochell at Bank of Oklahoma (BOK) in regard to the current process, in which BOK partners with Chicago Clearing Corporation to ensure claims are filed on all eligible class actions. A procedure could be considered in which the Board would receive a quarterly filings report and could approve after-the-fact at each quarterly meeting. Mr. LaFon said he plans to present recommendations on this issue at the next Board meeting.

Discussion and Possible Action to enter an Executive Session pursuant to 25 O.S. §307 (B)(4) for confidential communications between the Board and its attorney concerning the Canada Revenue Agency's notice of nonresidential tax assessment where the Board's attorney has determined that disclosure will seriously impair the ability of the Board to conduct a pending investigation, litigation, or proceeding in the public interest.

Mr. LaFon suggested the board enter into executive session pursuant to 25 O.S. §307(B)(4) for confidential communications between the board and its attorney concerning the Canada Revenue Agency's notice of nonresidential tax assessment. Mr. LaFon answered in the affirmative when asked if disclosure of the communications between the board and counsel would seriously impair the ability to conduct the potential litigation as listed on the agenda.

Vote to enter Executive Session

A motion to enter executive session was made by Ms. Bolander, with a second provided by Mr. Schonacher. Roll call vote was taken and approved unanimously.

Exit Executive Session and vote to reenter open session

Following the executive session, Ms. Bolander moved to reopen the meeting. A second was made by Vice Chair Mueggenborg. The motion was adopted unanimously by roll call vote.

Vote on item discussed in Executive Session

A motion was made by Mr. Schonacher, with a second by Mr. Goetz, to authorize Chairman McDaniel to hire appropriate legal counsel, if necessary, in regard to the nonresidential tax assessment by the Canada Revenue Agency. By roll call vote, the board unanimously approved the motion.

Discussion of estimated FY-20 earnings as of December 31, 2019

Mr. Hover said the FY20 estimated earnings for certification as of December 31, 2019 was \$24.5 million, which was in comparison to twelve months before of \$23.1 million.

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

Chairman McDaniel explained that no action was required, but that the funds required the board be notified annually to continue its relationship.

Comments and questions from Board members

There were none.

Adjournment

Mr. Schonacher initiated and Ms. Bolander provided a second to a motion to adjourn the meeting, which was unanimously adopted by roll call vote at approximately 12:10 p.m.

Randy McDaniel, Chair

Tobacco Settlement Endowment Trust Fund Board of Investors