

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

August 18, 2020

Zoom Video Conference 831 6896 6017

**Call to order**

Treasurer Randy McDaniel, board chair, called the meeting to order at 10:33 a.m. on Tuesday, August 18, 2020.

**Confirmation of quorum**

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

Others present were Julie Bisbee, Executive Director for the TSET Board of Directors, Sandra Rochell 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 June 16, 2020**

Ms. Bolander moved to approve the minutes of the June 16, 2020 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**

Sandra Rochell with Bank of Oklahoma verified the Trust was in compliance with the no-tobacco policy for the quarter ending June 30, 2020.

**Discussion and possible action on FY-20 certified earnings**

Charles Hover presented a report showing preliminary earnings on the TSET fund during FY-20 were \$40,985,739.93. Chairman McDaniel moved to approve the FY-20 certified earnings as presented. Ms. Bolander provided a second and the motion was unanimously approved by roll-call vote.

**Presentation by existing private debt manager Monroe Capitol**

Presenting for the firm were R. Sean Duff, Zia Uddin and Chris Lund. Monroe Capital has approximately 130 people and \$9.3 billion in assets, with the firm only focusing on lower middle market private credit. The TSET investment of \$50 million is currently in fund III. The new fund IV mandate will be the same as the current fund with no changes to industry concentrations, risk and what kind of deals Monroe will be executing and the investment period will be from 18-24 months. Target returns for the new fund will be 9% to 12%. Fund III began migrating about three years ago into more defensive industries such as software, business services and healthcare. Due to the effects of the pandemic, Mr. Duff said there is a general need by companies for capital and as a lender they are seeing less leverage than 6 months ago. In addition, they are seeing 2% to 3% higher pricing than pre-pandemic levels. The reasons for these changes are attributed to more cautious lending and less aggressiveness by banks, due to uncertainty in the markets.

**Discussion and possible action on the private debt allocation including possible authorization to issue a request for proposals (RFP) for U.S. direct lending money managers**

Don Stracke said the Trust portfolio is currently underweight by 4% in the private debt allocation. NEPC remained convinced, across the array of potential investment opportunities, that this allocation was still relatively attractive and recommended authorization of the issuance of a request for proposal for a U.S. direct lending money manager with a mandate ranging from \$50 million to \$70 million. Ms. Bolander made a motion to authorize the RFP, which was seconded by Ms. Mueggenborg. The motion was unanimously adopted by roll-call vote.

#### **Discussion and possible action regarding the processing of class action lawsuits and settlements involving the Board of Investors**

Assistant Attorney General Matthew LaFon presented a memorandum to the Board outlining recommendations for the proper handling and oversight by the Board regarding class action lawsuits and settlements to ensure fiduciary responsibilities are met. Mr. LaFon pointed out that the policy change would not preclude the Board from possibly initiating class-action litigation should conditions warrant. Following Board discussion, Ms. Mueggenborg moved to require the regular presentation to the Board, on at least a quarterly basis, of proof of claims filed in class actions on behalf of the Board of Investors by Bank of Oklahoma and the Chicago Clearing Corporation. Ms. Bolander provided a second to the motion. Upon roll-call vote, the motion was unanimously approved.

#### **Presentation and discussion of FY-20 fourth quarter investment performance**

Mr. Stracke summarized the economic and market environment as having a large amount of uncertainty with the trajectory of Covid, especially in the U.S., having a major effect. Going along with this uncertainty is the elevation of pricing, with very low fixed income yields. NEPC stressed that asset allocation is key during these difficult times, with good news being that the Trust portfolio is well diversified. The one-year return for the portfolio was 1.4%, net of fees, ranking in the 67<sup>th</sup> percentile of the Trust's peer universe and over a three-year period the return was 4.8%. The five-year performance was 5.3% net of fees, ranking in the 36<sup>th</sup> percentile. The risk-adjusted returns over this period ranked in the top half of a universe of the Trust's peers, with the Trust's assets totaling \$1.33 billion. The Trust asset allocation was comprised of 31% in fixed income, 44% equity, 10% global tactical asset allocation, 8% real estate, 4% master limited partnerships and 3% in private debt.

#### **Discussion and possible action on consent to the assignment of the Barrow Hanley Mewhinney & Strauss, LLC Investment Management Agreement/Advisory Agreement**

Barrow Hanley, who is one of the Trust's Large Cap equity managers, provided notification that an Australian financial services firm called Perpetual Limited is acquiring an equity interest that will result in a change of control of Barrow. This change of ownership will be deemed to be an assignment of TSET's investment management agreement, but there will be no impact to existing clients. NEPC supports the approval of the change to Barrow Hanley. Chairman McDaniel moved and Mr. Schonacher seconded a motion to approve the consent assignment of the Barrow Hanley Mewhinney & Strauss, LLC Investment Management/Advisory Agreement. The motion was unanimously adopted by roll-call vote.

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

In response to a question from Chairman McDaniel, Mr. Stracke stated that due to current and anticipated market conditions relating to the COVID-19 pandemic, annual investment earnings by the TSET fund are expected to be more subdued in the next few years as compared to the recent past.

#### **New Business**

There was none.

**Adjournment**

Seeing no additional items for the Board to consider, Mr. Schonacher moved the meeting be adjourned and Ms. Bolander offered a second. By unanimous roll-call vote, Chairman McDaniel declared the meeting adjourned at 12:14 p.m.

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