

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

June 15, 2021

State Capitol Building, Room 230
2300 N. Lincoln Blvd.
Oklahoma City, OK 73105

Call to order

Treasurer Randy McDaniel, board chair, called the meeting to order at 10:34 a.m. on Tuesday, June 15, 2021.

Confirmation of quorum

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

Others present were OST Chief Investment Officer Lisa Murray, OST Director of Portfolio Accounting and Reporting Phyllis Chan, OST Manager of Portfolio Accounting and Reporting Donna Beeman, Assistant Attorney General Benjamin Graves, Paul Pustmueller and Evan Walter with BOK Financial, and TSET Director of Public Information and Outreach Thomas Larson.

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

Approval of minutes from the meeting on February 23, 2021

Ms. Mueggenborg moved to approve the minutes of the February 23, 2021 meeting of the board. Ms. Bolander provided a second and the motion was unanimously adopted by roll-call vote.

Presentation of report regarding Tobacco Free Investments

Mr. Walter with Bank of Oklahoma verified the Trust was in compliance with the no-tobacco policy for the quarter ending March 31, 2021.

Discussion and Possible Action regarding class action proof of claims filed by BOK Financial and/or Chicago Clearing Corporation on behalf of the Board of Investors for Third Quarter FY-21

Ms. Murray presented a report from BOK Financial/Chicago Clearing Corporation listing class action proof of claims filed between January 1, 2021 and March 31, 2021. Chairman McDaniel moved to approve the filings of the claims, which was seconded by Mr. Schonacher. The motion was unanimously approved by roll-call vote.

Discussion of credit to TSET by Schroders

Ms. Murray reported an invoicing error was discovered by Schroders stemming from a Fee Reduction Amendment dated May 25, 2018. The Management Fee value had been overstated

by \$219,238.78 between Q2 2018 and Q4 2020. The subsequent invoice from Schroders was adjusted to credit the trust for the overage. No action was required by the Board.

Approval of intra-agency administrative and legal contracts with the Treasurer's Office

Ms. Murray presented a proposed Interagency Agreement between TSET and the Treasurer's Office for services to be provided during FY-22 in support of the Board of Investors in the amount of \$160,133 annually. She also presented a proposed agreement for legal services by an assistant attorney general, to be billed through the Treasurer's Office for FY-22 at \$1,958.34 per month or \$5,875 per quarter. Ms. Bolander moved to approve both agreements. A second was made by Mr. Schonacher. The motion was unanimously approved by roll-call vote.

Discussion and possible action for approval and issuance of the investment consulting services request for proposals

Ms. Murray presented a proposed Request for Proposals for investment consulting services for the Board's consideration. She explained the action is required to be conducted once every five years. She said the current contract with NEPC is set to expire November 30, 2021. Mr. Schonacher moved to approve the RFP and its issuance. Ms. Muggenborg provided a second. The motion was unanimously approved by roll-call vote.

Ms. Murray said the RFP would be issued on June 16, 2021 with responses due by July 16, 2021.

Private equity educational presentation

Mr. Stracke with NEPC began talking about the reasons why private equity had not been recommended in the past for the Trust. On a historical basis the Trust only included interest and dividends as earnings, and the majority of private equity earnings would be in capital gains, also the past portfolio size made this type of investment not as feasible. Now that the portfolio is larger and capital gains are included, it could be time to begin considering this investment type. Private equity is a return enhancer with the premium earned over other investment options serving to compensate for the liquidity risk. This investment type also has a large investable universe, is not fully correlated with public equities, provides access to smaller companies and a wider range of strategies. Mr. Stracke then described the different kinds of direct manager and multi-manager, or fund-of-funds, investment strategies. He said a liquidity study would be conducted to determine the private equity allocation amount that would be targeted for the portfolio. Fees were discussed, along with the closed-end fund lifecycle and the "J-Curve" of cash flows and returns.

Presentation and discussion of FY-21 third quarter investment performance and current asset allocation

Mr. Stracke said the first quarter real gross domestic product grew at an annual rate of 6.4% and the unemployment rate dropped to 6.0% from 6.7% in the previous quarter. The labor force participation rate was at 61.5% after declining to 60.2% in April 2020 and is at levels below the 10-year pre-pandemic average of 63.2%. Year-over-year the S&P was up 56% and the Russell 3000 gained 62%. The only benchmark negative quarterly return was the Barclays Aggregate which came in at -3.37%. Mr. Stracke said that transitory core asset inflation continued during the quarter and some major market themes were the continuing virus

trajectory, permanent interventions by central banks, globalization backlash and remaining tension between the US and China. As of March 31, the one-year return was 35.7% net of fees, ranking in the 60th percentile and outperforming the Trust's objective of the 5.0% spending rate plus inflation. On a fiscal-year-to-date basis, the Trust earned 20.2% in comparison to the policy and allocation index benchmarks of 16% and 17%, respectively.

Discussion and possible action on the Medley Opportunity Fund II LP Amendment No. 1 to the Third Amended and Restated Limited Partnership Agreement

Medley is proposing another two-year extension of the Partnership Agreement. Medley is a real estate private credit investment that is near the tail-end of their investment cycle, with approximately \$8 million left in the Trust. Medley had already received two one-year extensions and one of the subsidiaries had recently filed for bankruptcy. NEPC believes Medley should already be near to the fund closing, along with their fees dropping significantly. NEPC has been in talks with Medley and is now recommending the approval of a 9-month extension of the Partnership Agreement and a cap on the fees of 1%. Mr. Schonacher moved to allow the Treasurer to sign the extension request from Medley regarding the Medley Opportunity Fund III at his discretion. Ms. Muggenborg provided a second to the motion, which was unanimously adopted by roll-call vote.

Discussion of estimated FY-21 earnings as of March 31, 2021

Ms. Chan presented a report to the Board showing that estimated certifiable earnings through the end of FY-21 third quarter were \$84,719,133.33. No action was required of the Board.

Discussion and possible action on Fund budgetary matters

Ms. Chan presented a proposed revision to the Board's FY-21 budget, allowing for a total increase of \$146,202. The increase was necessitated by fees owed to Earnest Partners and State Street Global Advisors due to better than expected earnings generated by the firms' investments.

Ms. Chan also presented a proposed FY-22 budget to the Board totaling \$5,255,275.

Ms. Bolander moved to approve the FY-21 budget increase and the FY-22 budget. Ms. Muggenborg provided a second to the motion, which was unanimously adopted by roll-call vote.

Update on TSET Board of Directors activities

Mr. Larson reported the TSET Board of Directors approved its FY-22 budget at its meeting in May. The budget of \$49.95 million is an increase of 6.5 percent from FY-21.

He said TSET will continue to fund a portion of the state's prevention infrastructure to include the Oklahoma Tobacco Helpline and incentives for physicians to practice in rural areas. New phases of the TSET Healthy Young Initiative will also be launched.

Mr. Larson said the FY-22 budget includes renewed contracts for research at Stephenson Cancer Center, the TSET Health Promotion Research Center and the Oklahoma Center for Adult Stem Cell Research, as well as technical assistance and outside evaluators of TSET programs.

He reported that Healthy Living Program grantees working in 37 counties across the state are wrapping up the first year of the current five-year grant cycle. The first year involved an assessment of local health needs and the development of a strategic plan to guide the next four years of work.

Mr. Larson said the TSET Food Systems Impact Grants are nearing the end of their one-year life. The grants were awarded in response to the pandemic and an increase in food insecurity.

Finally, he reported the Board of Directors' August board meeting and annual retreat will be held August 26 and 27 at Lake Murray State Park and Lodge.

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 Ms. Muggenborg, the board unanimously to adjourn at 12:12 p.m.

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