

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

June 18, 2019

State Capitol Building
2300 N. Lincoln, Conference Room #123
Oklahoma City, Oklahoma

Call to order

Treasurer Randy McDaniel, board chair, called the meeting to order at 10:30 a.m. on Tuesday, June 18, 2019.

Confirmation of quorum

Members of the Board present for the meeting were Chair McDaniel, Vice Chair Todd Dobson, Brenda Boland and Bill Schonacher.

Chair McDaniel welcomed new Board Member Schonacher, who is the Speaker of the House appointee.

Others present were OST Chief Investment Officer Lisa Murray, Sandra Rochelle and Paul Pustmueller with Bank of Oklahoma, OST Director of Portfolio Accounting and Reporting Charles Hover, Manager of Portfolio Accounting Phyllis Chan, 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 meeting on February 26, 2019

Ms. Bolander moved to approve the minutes of the February 26, 2019 meeting of the board. Mr. Dobson seconded, with the edits already discussed with Tim Allen, and the motion was unanimously adopted.

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 March 30, 2019.

Discussion and Possible Action on Fund budgetary matters

Mr. Hover said the proposed budget for FY2020 totaled \$3,855,189. The budget reflected an increase of 7% from the previous year due to the new master limited partnership manager, Tortoise Capital, and the reduction of Western Asset from 4% to 2% of the portfolio. Motion made by Mr. Dobson and seconded by Mr. Schonacher to approve the fiscal year 2020 budget. The motion was adopted unanimously.

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

Ms. Murray said the fiscal year 2020 expenses for the Treasurer's office to provide TSET with accounting and financial services would be \$153,464 and legal service costs of \$12,605. The administrative fee was \$500 more than the previous fiscal year due to an increase in software costs, but the legal fees were static from last year. Motion made by Ms. Bolander and seconded by Mr. Schonacher to approve the proposed fiscal year 2020 intra-agency administrative and legal contracts with the Treasurer's Office. The motion was adopted unanimously.

Discussion and possible action regarding benchmarks for the Trust portfolio

Don Stracke, Senior Consultant, said NEPC was recommending the Board adopt new asset class benchmarks for dynamic fixed income, absolute return fixed income, direct lending and global tactical asset allocation. These changes were being recommended due to the fact that the current benchmarks in these asset classes were optimistic, had volatility that was inconsistent with the underlying investments and represented a return stream that generally could not be found in the capital markets. The new benchmarks would become effective on July 1, 2019. Motion made by Mr. Dobson and seconded by Ms. Bolander to approve the proposed benchmark changes, as recommended by NEPC. The motion was adopted unanimously.

Discussion and possible action to enter into an Executive Session for confidential communications between the Board and its attorney concerning the settlement between Citibank, N.A. and various State Attorneys Generals where the Boards' attorney has determined that disclosure will seriously impair the ability of the Board to process the claim in the public interest

Mr. Lafon suggested the Board enter into executive session so that they could discuss the Citibank settlement. Motion was made by Ms. Bolander, seconded by Mr. Schonacher, and unanimously approved to begin an executive session.

After executive session was completed, a motion was made by Mr. Dobson seconded by Ms. Bolander to re-enter into an open meeting. Motion was approved unanimously.

Motion was made by Mr. Schonacher, seconded by Mr. Dobson, that the Board of Investors execute the Election to Participate, Release and Claim Form for the settlement between Citibank, N.A. and various State Attorneys General. Motion was approved unanimously.

Discussion of estimated FY19 earnings as of March 31, 2019

Mr. Hover said the FY19 estimated earnings for certification as of March 31, 2019 was \$38.2 million, which was in comparison to twelve months before of \$38.6 million.

Presentation and discussion of FY19 third quarter investment performance and current asset allocation

The market value of the Trust as of March 31, 2019 was \$1,223,044,536. The quarterly return was 8%, in comparison to the policy index of 7.3%, and the fiscal year-to-date return was 2.7%. The 1-year return was 3.7%, with 75% of the endowments and trusts in the comparison universe earning less yield. Over the last three years, the Trust earned 7.9%. All returns were reported net of fees.

Review, discussion and comparison of TSET asset allocation with other endowment funds

Richard Harper, Principal with NEPC and an endowments and foundation expert, presented the results of the 2018 study by the National Association of College & University Business Operations (NACUBO). The study had 802 participating endowments, with 85 participants having assets from \$501 million to \$1 billion and 104 participants with assets in excess of \$1 billion. Information was provided in regard to endowment spending rules, asset allocation comparisons between TSET and the study participants, asset class returns, and the use of alternative investments such as hedge funds and private equity. Discussion ensued in regard to what alternative investments might be of benefit to consider for the Trust.

Comments and questions from Board members

There were none.

New business

There was none.

Adjournment

Ms. Bolander moved to adjourn the meeting and Mr. Dobson provided a second. The motion was unanimously approved by voice vote at 11:40 a.m.

Randy McDaniel, Chair

Tobacco Settlement Endowment Trust Fund Board of Investors