

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

August 13, 2019

State Capitol Building  
2300 N. Lincoln, Conference Room #511A  
Oklahoma City, Oklahoma

**Call to order**

Treasurer Randy McDaniel, board chair, called the meeting to order at 10:34 a.m. on Tuesday, August 13, 2019.

**Confirmation of quorum**

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

Others present were Thomas Larson who is the TSET Director of Public information and Outreach, TSET Director of Operations Jennifer Treadwell, OST Chief Investment Officer Lisa Murray, Sandra Rochelle and Paul Pustmueller with Bank of Oklahoma, OST Director of Portfolio Accounting and Reporting Charles Hover and Assistant Attorney General Matthew Lafon, counsel to the Board.

Lisa Murray served as recording secretary.

**Approval of minutes from the meeting on June 18, 2019**

Mr. Dobson moved to approve the minutes of the June 18, 2019 meeting of the board. Ms. Bolander seconded 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 Trust was in compliance with the no-tobacco policy for the quarter ending June 30, 2019.

**Discussion and Possible Action on FY19 Certified Earnings**

Mr. Charles Hover presented data showing investment performance by the TSET fund during the just-ended fiscal year. Mr. Dobson moved to preliminarily certify investment earnings of \$60,253,351 from FY 2019 for use by the TSET Board of Directors, as recommended by staff. Mr. Schonacher provided a second to the motion, which was unanimously adopted by voice vote.

Ms. Debbie Mueggenborg, new Board member appointed by the Senate Pro Tempore, joined the meeting in progress.

## **Presentation and discussion of FY19 fourth quarter investment performance**

Mr. Tony Ferrara, consultant with NEPC, said the second quarter real gross domestic product increased at an annual rate of 2.1% and the unemployment rate was at 3.7%, which was almost a 50 year low. The Federal Reserve lowered the fed funds rate by 25 basis points to a targeted range of 2.00% to 2.25%. The time period of January thru June 2019 was the best first half for U.S. stocks since 1997. The market value for the Trust as of June 30, 2019 was \$1,297,247,544 with the quarterly return at 2.6% and the FY19 return at 5.3%, ranking in the 44<sup>th</sup> percentile and outperforming the 5% spending target. The Trust's return over 3-years was 8.1% and 5-years came in at 5.3%. All performance returns were reported net of fees.

## **Review and comparison of revised benchmarks to previous benchmarks**

At the last quarterly meeting, the Board approved benchmark changes to the asset classes of dynamic fixed income, absolute return fixed income, private debt and global tactical asset allocation. The Board asked what the relative performance impact would be on the effected managers and their composites versus current and proposed benchmarks. Mr. Ferrara provided the requested information and discussion ensued in regard to the value obtained from updating the appropriate benchmarks and comparison in returns between the new and old benchmarks.

## **Discussion and possible action of the real estate portfolio**

The Trust had approximately \$36.3 million or 3% of the fund invested with real estate manager UBS Trumbull Property Fund. NEPC recently downgraded UBS Trumbull from a 1-rated to 3-rated, or neutral opinion. Mr. Stracke, Senior Consultant with NEPC, there were heightened concerns about the Fund due to several factors such as even though low leverage had been utilized, the Fund still had underperformed on an unlevered basis. The large number of assets had also become detrimental, along with overweight positions to retail and hotel could prove challenging in the current environment. Mr. Stracke said that due to the large exit pool that the Fund has, that a request to redeem the Trust's position could take from 18-24 months to be completely filled. The Board asked Mr. Stracke to provide some alternative investment options at the next meeting for consideration in the event of a redemption.

## **Educational presentation of private credit**

Mr. Stracke said private credit had evolved and there were multi-strategy private credit lenders that could provide the opportunity for talented managers to move among different strategy types to allocate assets, add value and improved diversification. The Trust was currently below target in private credit of approximately \$55 million or 4%. Private credit investments have a shorter life in returning capital of 4 to 6 years, in comparison to private equity of 10-12 years. An advantage of multi-strategy private credit was that there are evergreen funds which allows the committed capital to be recycled and could better manage cash flow. Private credit includes bank loans and direct lending, distressed private debt, mezzanine debt and niche lending. Private credit is attractive due to ongoing de-leveraging of the global banking system, especially in Europe, and risk-adjusted returns are positive. An opportunistic approach to private credit would target a net return of 7-9%. Mr. Stracke recommended a multi-strategy private credit money manager be asked to come to the next board meeting to provide further education and answer questions.

**Comments and questions from Board members**

There were none.

**New business**

The newest Board member, Debbie Mueggenborg was introduced and she shared with the Board her professional and personal background. There was no further new business.

**Adjournment**

No vote for adjournment was taken. The meeting ended at approximately 11:40 a.m.

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Randy McDaniel, Chair

Tobacco Settlement Endowment Trust Fund Board of Investors