

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

November 12, 2020

Zoom Video Conference 823 8180 7352

Call to order

Treasurer Randy McDaniel, board chair, called the meeting to order at 10:30 a.m. on Thursday, November 12, 2020.

Confirmation of quorum

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

Others present were Evan Walter 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 August 18, 2020

Ms. Bolander moved to approve the minutes of the August 18, 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

Evan Walter with Bank of Oklahoma verified the Trust was in compliance with the no-tobacco policy for the quarter ending September 30, 2020.

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 First Quarter FY-21

Lisa Murray presented a report from BOK Financial/Chicago Clearing Corporation listing class action proof of claims filed during July through September 2020, consisting of Equifax, First Solar, Henry Schein, SeaWorld Entertainment and Signet Jewelers Limited. Mr. Goetz moved to approve the filing of the claims, which was seconded by Ms. Bolander. The motion was unanimously approved by roll-call vote.

Presentation of annual audit for FY-20 by Finley & Cook

Dan Bledsoe of Finley & Cook presented a report on the audited financial statements of TSET for Fiscal Year 2020. No reportable conditions were found.

Discussion and Possible Action on certifying reserve funds based on the Audit Report by Finley & Cook

Charles Hover presented a reporting showing an additional \$505,226.54 held in reserve pending adoption of the audit report was available for certification by the board. Upon a motion by Ms. Bolander and a second by Mr. Goetz, the board voted unanimously by roll-call to certify the additional funds as specified by Mr. Hover.

Discussion and Possible Action on certifying reserve funds as specified in the Settlement Agreement and Release of all Claims

Mr. Hover was recognized to present a report to the board showing that an additional \$2,258,970.71 from the reserve established in the February 16, 2012 agreement between the Board of Investors and

the Board of Directors for TSET was available to be certified. Upon a motion by Ms. Bolander and a second by Mr. Schonacher, the additional funds, as specified by Mr. Hover, were certified by unanimous roll-call vote.

Discussion and review of the U.S. direct lending search

Don Stracke and Colton Lavin, senior research analyst with NEPC, was recognized to outline the private debt search parameters. The request for proposal (RFP) was issued on September 18th and NEPC received 27 proposals. There were 7 proposals that were rejected for not meeting the minimum criteria, or other requirements laid out in the RFP. There were 6 top rated semi-finalists and each manager presented their fund details in hour calls. The two finalists were determined to be Angelo Gordon and Monroe Capital.

U.S. direct lending investment manager presentations

The first presentation was made by Bill Cullinan, Trevor Clark and Drew Guyette for Angelo Gordon (AG). The firm is 32 years old and has \$39 billion in assets under management with over 500 employees. They are headquartered in New York with offices globally. AG is 100% employee owned with \$1 billion of capital in their funds. Mr. Clark has over 20 years of experience, and the firm's focus on the lower end of middle market strategies have been proven over multiple market cycles. They source 1,500 to 2,000 deals annually, with credit selection and underwriting remaining paramount, and only 3% of transactions being executed.

The next presentation was made by Sean Duff, Zia Uddin and Chris Lund with Monroe Capital. They are looking to raise \$1.5 billion for their Fund IV, with the strategy being identical to the current fund that TSET is invested. The target returns for the onshore levered fund is in the 9%-12% range. Their market thesis is that due to Covid companies will require growth capital in the form of debt and equity, but because debt is typically cheaper, it will be the predominate driver. They will continue focusing on lower middle market companies with opportunities to increase yield through structure and non-structure sponsored transactions. The fund will be diversified across multiple industries in companies that have defensible market positions and proven historical cash flows.

Discussion and Possible Action on selection of a U.S. direct lending investment manager

Upon discussion of the relative merits of each firm and their individual investment structure and strategies, Mr. Schonacher moved to allocate \$50 million to Monroe Capital and \$20 million to Angelo Gordon for direct lending investment. A second was provided by Ms. Bolander. The motion was approved by roll-call vote with Mr. Schonacher, Ms. Bolander and Chairman McDaniel voting in the affirmative and Mr. Goetz abstaining.

Presentation and discussion of FY-21 first quarter investment performance

Mr. Stracke said it was a strong quarter with the S&P up 9%, the Barclays Aggregate at 0.62% and U.S. high yield at 4.6%. The fed funds rate was suggesting that expectations for interest rates will be flat and incredibly low going forward. The Trust earned 4.5% for the quarter ending September 30th. The one-year return was 5.6% net of fees ranking in the 65th percentile, outperforming the Trust's objective of the 5% spending rate plus inflation.

Discussion and Possible Action regarding the selection of firm(s) to provide security fraud class action monitoring

Ms. Murray reported that following a request for information, three finalists were selected by staff analysis of the relative strengths and experience of the law firms to provide securities fraud monitoring at no cost to the Board of Investors. Ms. Bolander moved to approve the selection of Robins Geller,

Cohen Milstein, and Pomerantz as the firms to provide securities fraud class action monitoring. Mr. Schonacher provided a second to the motion, which was unanimously approved by roll-call vote.

Discussion of State Question 814 results

The board received a report showing that at the November 3, 2020 General Election, State Question 814, a legislative referendum, was rejected by voters by a margin of 41.2 percent in favor and 58.8 percent opposed. The question proposed providing 25 percent of the annual payment under the Master Settlement Agreement to TSET and 75 percent to the Legislature and Attorney General. Current language in the Oklahoma Constitution, which was left unchanged, allocates 75 percent of the annual payment to TSET and 25 percent to the Legislature and Attorney General.

Discussion of estimated FY-21 earnings as of September 30, 2020

Mr. Hover presented a report showing estimated earnings to TSET through the end of the first quarter of the fiscal year were \$17,631,805.28.

Election of Vice Chair for 2021 statutory requirement

As mandated by state statutes, the board selected a vice chair for the Board of Investors to serve during calendar year 2021. Chairman McDaniel made a motion to select Mr. Schonacher as vice chair, and a second was provided by Ms. Bolander. The motion was unanimously adopted by roll-call vote.

Discussion and Possible Action on meetings for 2021

Mr. Goetz made a motion, seconded by Mr. Schonacher, to schedule meetings of the Board of Investors on February 23, June 15, August 17, and November 16 in 2021. Each meeting would begin at 10:30 a.m., with locations to be announced at a later date. The motion was unanimously approved by roll-call vote.

Comments and questions from Board members

There were none.

New Business

There was none.

Adjournment

Seeing no additional items for the Board to consider, Mr. Schonacher moved the meeting be adjourned and Mr. Goetz offered a second. By unanimous roll-call vote, Chairman McDaniel declared the meeting adjourned at 12:50 p.m.

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