

Item 2

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

June 16, 2020

Zoom Video Conference 831 6896 6017

Call to order

Treasurer Randy McDaniel, board chair, called the meeting to order at 10:35 a.m. on Tuesday, June 16, 2020.

Confirmation of quorum

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

Others present were 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 March 12, 2020

Ms. Bolander moved to approve the minutes of the March 12, 2020 meeting of the board. Mr. Goetz 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 March 31, 2020.

Discussion and review of the real estate debt search

Don Stracke and Chris Miers, Senior Research Consultant, with NEPC said that in January a request for proposal (RFP) was issued for real estate debt managers and 17 proposals were received. NEPC recommended the manager search for a \$30 million mandate to provide additional diversification and to bring the portfolio closer to the 10% target in real estate. The Board had approved the RFP at its November 12, 2019 meeting.

Real estate debt investment manager presentations

NEPC and Lisa Murray interviewed, over the last three months, the five managers who scored the highest in the proposal evaluations. It was the opinion of both staff and NEPC that Brookfield Asset Management, Oaktree Capital, and PCCP should be selected as finalists. These firms had strong offerings and provided a good contrast for the Board to express their perspective on risk tolerance.

Presentation by Brookfield Asset Management

The Brookfield presentation was made by Theo Buchsbaum, Client Relationship Manager, and Chris Reilly, Managing Partner. Brookfield proposed an open-end fund which invests in real estate finance related transactions in a credit risk position that is senior to traditional equity and junior mezzanine debt, and subordinate to senior debt. The firm manages more than \$515 billion of assets focused on real estate, infrastructure and private equity. The proposed fund is targeting a net return of 6%-7%, comprised of high-quality real estate collateral in the U.S., with a major component of which is expected

to be current income. Brookfield has deployed over \$7.3 billion in capital since 2004 and over 160 real estate finance transactions.

Presentation by Oaktree Capital

The Oaktree presentation was made by Justin Guichard, Managing Director and Co-Portfolio Manager, and Lauren Gribble, Vice President Marketing. The firm has approximately \$93 billion of assets under management in real estate opportunities, real estate debt and real estate income strategies with 7 offices worldwide. The fund started in 2010, has \$2.7 billion in assets and current committed capital of \$6.6 billion. The Real Estate Debt Fund III focuses on real estate structured credit and corporate debt, commercial first mortgages and mezzanine loans, and residential first mortgages.

Presentation by PCCP, LLC

The PCCP presentation was made by K.C. Kriegel, Senior VP Investor Relations, Don Kuemmel, Founding Partner, and Brian Heafey, Partner and Portfolio Manager. The firm proposed their Credit X Fund, which is a closed-end fund with a \$1.5 billion target size and a net return target of 8-10%. The Fund originates loans collateralized by institutional quality real estate through the U.S., earns current income and utilizes leverage when available and accretive. PCCP has had over \$16.5 billion of debt investments originated since 1998 across 491 loans. The firm has 12 partners, with over 25 years of experience in the real estate market, and over 17 years at PCCP.

Discussion and Possible Action on the selection of the real estate debt investment manager

The board discussed the merits of each presentation at length. Ms. Mueggenborg then made a motion to select Brookfield Asset Management as the new real estate debt money manager with a mandate of approximately \$30 million. A second to the motion was provided by Mr. Schonacher. The motion was unanimously approved by roll call vote.

Presentation and discussion of FY-20 third quarter investment performance and current asset allocation

Mr. Stracke provided a brief summary and said the performance of the Trust portfolio was difficult on an absolute basis for the quarter, but the Trust held up reasonably well and ended up in the 50th percentile. Diversity in the portfolio was not additive in yield, but did lower the volatility. Mr. Stracke said the return was hurt by the master limited partnership (MLP) and the global asset allocation exposure. The positive news was that many of the allocations had already bounced back since the March 30th quarterly report.

Discussion of estimated FY-20 earnings as of March 31, 2020

Mr. Hover presented information to the board showing FY-20 estimated earnings for certification as of March 31, 2020 were \$28 million, which compared to estimated earnings of \$38.8 million through the first three quarters of the prior fiscal year.

Discussion and Possible Action on Fund budgetary matters

FY-2020 Revised Budget Approval

The board received information recommending a \$149,723 increase in the FY-20 budget to ensure sufficient funds were available to pay management fees through the end of the fiscal year on June 30. The revised total budget would be adjusted to \$4,004,912. Ms. Bolander made a motion to approve the submitted revisions for the current FY-20 budget. Mr. Goetz provided a second to the motion, which was unanimously adopted by roll call vote.

FY-2021 Budget Approval

The board received information recommending a FY-21 budget of \$4,210,618, an increase of \$205,706, or 5.1 percent from the FY-20 as amended by the previous item on the meeting agenda. Ms. Mueggenborg moved to adopt the FY-21 budget as submitted and a second was provided by Mr. Schonacher. The motion was unanimously adopted by roll call vote.

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

An intra-agency administrative support agreement of \$154,490 and legal services contract of \$23,488 were presented to the board for FY-21. A motion to approve both contracts as presented was made by Ms. Bolander and seconded by Ms. Mueggenborg. The motion was adopted by unanimous roll call vote.

Update on TSET Board of Director's FY-21 budget and recently enacted legislation

TSET Board of Directors Executive Director Julie Bisbee explained Senate Joint Resolution 27, which was approved in the final days of the 2020 legislative session. If approved by voters at the General Election on November 3, distribution of payments to TSET would be reduced to 25 percent of the annual Master Settlement Agreement instead of the current 75 percent.

Discussion and Possible Action regarding the processing of class action lawsuits and settlements involving the Board of Investors

Board legal counsel, Matthew LaFon reported to the board that staff at the Office of the Attorney General was reviewing current board policy regarding handling of claims for class action lawsuit settlements. Mr. LaFon said he anticipated a full report would be presented at the board's next regular meeting on August 18.

Ratification of consent to the assignment of the Western Assets Management Company, LLC Investment Management/Advisory Agreement

Western Asset, who is the Trust's dynamic fixed income manager, is an affiliate of Legg Mason. It was announced in February that Franklin Templeton would be acquiring Legg Mason. The parent change to Franklin Templeton required a consent document to be executed and the current terms of the Trust's agreement with Western Asset would not change. Ms. Mueggenborg moved to approve the consent assignment of the Western Assets Management Company, LLC Investment Management/Advisory Agreement. Mr. Goetz provided a second to the motion, which was unanimously adopted by roll call vote.

Comments and questions from Board members

There were none.

New Business

There was none

Adjournment

Mr. Schonacher moved the meeting be adjourned and Mr. Goetz provided a second. The motion was unanimously adopted by roll call vote at 12:56 p.m.

Randy McDaniel, Chair

Tobacco Settlement Endowment Trust Fund Board of Investors