

**MINUTES OF THE MEETING OF THE BOARD OF INVESTORS FOR THE
OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT TRUST FUND (TSET)**

June 21, 2023

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

Call to order

Treasurer Todd Russ, Chair of the Board, called the meeting to order at 10:01 a.m. on Wednesday, June 21, 2023.

Confirmation of quorum

Members of the Board present at the start of the meeting were Treasurer Russ, Debbie Mueggenborg (Vice Chair), Brenda Bolander, and Aaron Ackerman.

Others present at the meeting 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 Ben Graves; NEPC Advisor Michael Malchenko; Paul Pustmueller, Evan Walter, Sean Chitwood, and Conner Freeman with BOK Financial; and TSET Executive Director Julie Bisbee.

Chris Biggs of the State Treasurer's Office served as recording secretary.

Approval of minutes from the meeting on March 3, 2023.

Upon a motion by Ms. Mueggenborg and a second by Ms. Bolander, the minutes of the March 3, 2023 meeting of the Board were unanimously adopted by roll-call vote.

Presentation of report regarding Tobacco Free Investments by BOK Financial.

Treasurer Russ recognized Mr. Walter to present this item. Mr. Walter verified that the Trust was in compliance with the no-tobacco policy for the quarter ending March 31, 2023.

Discussion and Possible Action regarding class action proof of claims filed by BOK Financial and/or Chicago Clearing Corporation on behalf of the Board for the third quarter of FY 2023.

Treasurer Russ recognized Ms. Murray to present this item. Chicago Clearing Corporation provided a summary of the class action claims filed between January and March of 2023. Ms. Murray recommended the after-the-fact approval of these filings. After discussion, a motion was presented by Ms. Bolander and seconded by Mr. Ackerman to approve the claims report. The motion was unanimously adopted by the Board's roll-call vote.

Approval of FY 2024 interagency administrative and legal contracts with the State Treasurer's Office.

Treasurer Russ recognized Ms. Murray to present this item. The proposed fiscal year expense for OST to provide TSET with accounting & financial services is \$173,888 and legal services is \$26,291 (rounded down). The administrative fee reflects a 2.24% increase over the last year

and is due to changes in OST support personnel and expected addition of new investment managers. The legal fee is estimated to go up by \$1,892 due to the increase in OST's contract with the AG's office. OST staff recommended the contracts be renewed. Upon a motion by Ms. Mueggenborg and a second by Ms. Bolander, the aforementioned contracts were unanimously adopted by roll-call vote.

Discussion regarding State Street's designation on the Energy Discrimination Elimination Act boycott list.

Treasurer Russ recognized Mr. Malchenko to present this item. NEPC has determined that the transition costs of replacing State Street as account manager would be minimal and ongoing costs would be determined by the availability of an index vendor of comparable capability. Treasurer Russ said that he would not entertain a vote on the agenda items regarding the possible termination and liquidation plan for State Street, due to questions pertaining to the applicability of the Energy Discrimination Elimination Act to the TSET trust. TSET has been with State Street for almost 17 years. Treasurer Russ stated that from a practical business standpoint, it might be a good idea to competitively bid the allocation to ensure that TSET is receiving the best pricing. A motion by Ms. Bolander was made to approve the issuance of a request for proposal for a new large cap growth index fund money manager and have it released in 90 days. Mr. Ackerman seconded the motion, and the motion was unanimously adopted by the Board's roll-call vote.

Discussion and Possible Action regarding NEPC's updated forecasts and asset allocation review.

Mr. Malchenko said the most important decision the Board of Investors can make is the allocation for the portfolio, to achieve an expected return at an acceptable level of risk. He discussed the asset class assumptions, building blocks methodology and inflation assumptions. The projected 10-year expected return, based upon the current asset allocation mix, increased to 6.1% from 4.9% in 2022 with an assumption of slightly elevated volatility. Mr. Malchenko described 4 alternatives to the portfolio mix, what each change would require and the projected returns for each mix. General discussion ensued by the Board and further dialog will be determined.

Discussion of private debt and real estate pacing plan analysis by NEPC.

Mr. Malchenko said a pacing plan provides a framework to review capital commitments to illiquid assets and ultimately assists in maintaining the portfolio's target asset allocation mix. It provides diversification during market cycles by ensuring that capital is deployed consistently and patiently over time. The TSET portfolio has a long-term strategic target allocation of 10% to private debt and 10% to private real estate, with the current allocations at 6% and 8% respectively. In the real estate portion, the allocation includes 50% to core and 50% to non-core.

Presentation and discussion of FY23 third quarter investment performance.

The Trust's performance over the last five years was 6.38% net of fees, ranking in the 16th percentile and outperforming the Policy Index by 0.07%. On a short-term basis, the one-year

return was -2.43% and underperformed the benchmark by 1.85%. The Trust's assets total \$1.66 billion which includes an investment gain of \$68 million over the last calendar quarter and an investment loss of \$38 million over the past year.

Discussion and Possible Action to approve participation in the Credit Suisse class action litigation.

Treasurer Russ recognized Mr. Graves to present this item. Mr. Graves recommended that the TSET Board of Investors participate in the class action lawsuit against Credit Suisse regarding TSET's exposure to AT1 holdings. Treasurer Russ agreed with the recommendation, and Mr. Ackerman made a motion to accept the recommendation. The motion was seconded by Ms. Mueggenborg and then unanimously adopted by the Board's roll-call vote.

Discussion of estimated FY 2023 earnings as of March 31, 2023.

Treasurer Russ recognized Ms. Chan to present this item. Ms. Chan estimated the earnings available to the TSET Board of Directors for FY 2023 as of March 31, 2023 to be \$41,691,651.33.

Discussion and Possible Action on TSET Fund budgetary matters.

Treasurer Russ recognized Ms. Beeman to present these items. For FY 2023, expenses were \$312,505 more than the original budgeted amount of \$4,991,636. For FY 2024, the budget being proposed is \$5,304,142. Ms. Mueggenborg made a motion to approve the proposed budget of \$5,304,142 for FY 2024. The motion was seconded by Ms. Bolander and then unanimously adopted by the Board's roll-call vote.

Update on TSET Board of Directors activities.

Treasurer Russ recognized Ms. Bisbee to present this item. The TSET Board of Directors (BOD) met in June and approved a FY 2024 budget of \$77.7 million. Some of the objectives for this fiscal year are to make additional grants to the private sector, including for telehealth services, and to increase the availability of lung cancer screening at the Stephenson Cancer Center. The Board plans to launch a youth character development program for those in grades 3 through 8 to encourage healthy decision making. In regards to state legislation, the BOD has been monitoring the venture capital bills that mandated a certain percentage of TSET funding for dedication, though none of the bills passed in the most recent legislative session. The BOD has also been monitoring the status of the renewal of the state-tribal tobacco compacts. Treasurer Russ asked a question about vaping, and Ms. Bisbee was pleased to report that Oklahoma is below the national average for usage, though there is room for improvement.

Comments and questions from Board members.

There were none. Ms. Murray did recognize and welcome Mr. Ackerman to the Board, as it was his first meeting.

New Business

There was none.

Adjournment

Upon a motion by Mr. Ackerman and a second by Ms. Mueggenborg, the Board voted unanimously to adjourn.

Todd Russ, Chair
Tobacco Settlement Endowment Trust Fund Board of Investors