

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

March 5, 2025

**State Capitol Building, Multi-Purpose Room 100.6
2300 N. Lincoln Blvd.
Oklahoma City, OK 73105**

Call to order

Treasurer Todd Russ, Chair of the Board, called the meeting to order at 10:02 a.m. on Wednesday, March 5, 2025.

Confirmation of quorum

Members of the Board present at the start of the meeting were Treasurer Russ, Aaron Ackerman, and John Waldo.

Others present at the meeting were OST Chief Investment Officer Lisa Murray; OST Chief of Staff Jordan Harvey; 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 Doug Moseley; Evan Walter, Paul Pustmueller, and Sean Chitwood with BOK Financial; TSET Executive Director Julie Bisbee; TSET Director of Public Information and Government Affairs Thomas Larson; TSET Accountant Britt Chapman; Paul Monies with Oklahoma Watch; OST Chief Policy Advisor Andy Ferguson; and OST Investment Assistant Andrew Gardner.

Andrew Gardner served as recording secretary

Presentation of Tobacco Free Investments report by Bank of Oklahoma

Chairman 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 that ended December 31, 2024.

Approval of minutes from the meetings on November 20, 2024, November 25, 2024, and January 31, 2025.

Upon a motion by Mr. Ackerman and a second by Mr. Waldo, the minutes from the Board meetings were unanimously adopted by roll-call vote.

Discussion and Possible Action regarding class action proof of claims filed by BOK Financial and/or the Chicago Clearing Corporation on behalf of the Board of Investors for the FY24 fourth quarter and FY25 first quarter.

Chairman Russ recognized OST Chief Investment Officer Lisa Murray to present this agenda item. Lisa Murray requested after the fact approval of the filings.

Upon a motion by Mr. Waldo to approve the class action claims filed in October through December 2024 and a second by Mr. Ackerman the motion was accepted unanimously by a roll call vote.

Presentation and discussion regarding NEPC's 2025 observations and forecasts

Chairman Russ recognized Doug Moseley with NEPC to present the observations and forecasts.

NEPC has a research team of about 70 people, and within that group 12 people on an asset allocation team are responsible for the TSET capital markets assumptions. NEPC identified four key themes for 2025: market pockets of euphoria, AI spending, tariffs, and global affairs. After a strong 2024, U.S. equity and credit markets remain rich, with AI spending driving sentiment and earnings expectations. The "Magnificent Seven" tech stocks significantly influenced market performance, fueled by AI investment. However, whether AI-driven efficiency gains will translate into monetizable growth remains uncertain. Tariffs and geopolitical issues, including conflicts in the Middle East and Ukraine, will be closely watched. As the U.S. transitions to a new administration, markets are uncertain about potential tariff policy changes, which historically increase volatility. NEPC sees no need to adjust the current portfolio allocation and is instead focused on reaching the 13% target for private credit and closely following the pacing plan. The 10-year return for the portfolio was projected to be 6.35% at the current asset allocation targets. The fund's volatility is slightly below institutional averages.

Update on the private credit pacing plan

Chairman Russ recognized Doug Moseley with NEPC to present the update on the private credit pacing plan.

The Board reviewed an update on the private credit pacing plan presented by the consultant, NEPC, emphasizing the need for a structured framework to evaluate investment commitments, capital deployment, and cash flow management. The fund aims for a 13% allocation to private credit but is currently at 5%, with a goal of investing approximately \$260 million. Previous commitments total \$120 million, including \$100 million committed last November, split between Neuberger Berman and Comvest. This year, NEPC recommended an additional \$100 million commitment, allocating \$50 million to each of these managers.

Capital calls occur gradually, with managers typically drawing down 20% of commitments in the initial quarters while existing investments return \$5-10 million per quarter. The Board discussed liquidity management and how overweight positions in fixed income, MLPs, and equities could provide funding for commitments without significant realized losses. The consultant outlined the ongoing expansion of the private credit market, highlighting diversified lending opportunities across industries, primarily targeting mid-market private companies rather than public entities.

The Board also reviewed cash flow modeling, which will continue to guide investment pacing and liquidity management. NEPC emphasized the importance of monitoring market fluctuations and strategically adjusting allocations. Fee negotiations were considered, ensuring cost efficiencies, with some managers offering significant discounts, including waived carry interest for two years. The recommendation to commit an additional \$50 million to each manager aligns with the fund's long-term investment objectives and previously negotiated terms, supporting steady growth toward the target allocation.

Discussion & Possible Action for an additional \$50 million commitment each to Neuberger Berman and Comvest Partners.

Chairman Russ recognized Doug Moseley who gave the recommendation to invest another \$50

million each with Comvest and Neuberger Berman, consistent with the vote in November. Mr. Ackerman made a motion to approve additional commitments of \$50 million each to the managers Neuberger Berman, and Comvest. The motion was seconded by Mr. Waldo and passed unanimously with a roll-call vote.

Presentation and discussion of FY25 second quarter investment performance

Mr. Moseley provided an overview of the quarterly report, highlighting key market trends and the performance of the TSET funds. The U.S. equity market had a strong fourth quarter, with the S&P 500 up 2.4%, while non-U.S. equities, such as MSCI EAFE and MSCI Emerging Markets, declined by 7-8%. Over the past year, U.S. equities significantly outperformed non-U.S. markets, driven by central bank easing and strong consumer spending. The TSET total fund, valued at just under \$2 billion as of December, had a strong quarter, ranking in the top quartile relative to peers and slightly outperforming its policy index for the year, returning 10.3% versus the policy's 10.0%. Over longer periods, TSET's allocation remained in line with policy targets, demonstrating stable returns above 7%. The portfolio was overweight equities by 4.6%, partly due to market performance and being underweight in private debt. While some asset classes, such as MLPs, performed exceptionally well, others, like small- and mid-cap equities and high-yield fixed income, underperformed.

The discussion also covered rebalancing strategies, risk management, and tactical allocation decisions. The GTAA fund underperformed due to defensive positioning, leading to a consideration of consolidating it with other portfolio elements to simplify management and reduce fees. The real estate segment faced challenges, particularly with Brookfield's mezzanine real estate debt fund, which suffered due to high exposure to office properties in the Northeast. Brookfield announced plans to close the fund, expecting to return 40% of capital this year and the remainder by 2027, with potential losses anticipated. The discussion concluded with insights into portfolio adjustments, the impact of market cycles, and ongoing monitoring of investments to align with TSET's long-term objectives.

Presentation, discussion and Possible Action to approve investment in an Oklahoma real estate fund

Chairman Russ welcomed Ben Stewart and Grant Humphreys from Humphreys Capital to pitch their Oklahoma real estate fund.

Humphreys Capital introduced their fifth closed-end real estate fund with a \$200 million target and a \$300 million cap. Mr. Stewart outlined the firm's growth over the past decade, evolving from a small firm into an institutional-caliber investment entity managing \$1.6 billion in assets. Since its inception, Humphreys has raised over \$742 million, focusing on high-growth, non-gateway markets, particularly in Oklahoma and surrounding regions. The firm's strategy leverages deep local expertise to identify opportunities and mitigate risk, targeting secondary and tertiary markets with strong economic and population growth.

Grant Humphreys elaborated on the firm's investment philosophy, which combines direct investments and joint ventures with 35 general partners across 20 markets, emphasizing diverse sectors such as industrial properties, multifamily build-to-rent communities, and retail. The firm's track record highlights its ability to identify market shifts, capitalize on distressed assets, and navigate complex economic cycles.

Humphreys Capital also underscored its competitive advantage in deal size, operating between

large institutional investors and smaller private investors, enabling access to high-potential sub-markets with less competition. The firm's in-house analytics and asset management expertise allow them to conduct thorough risk assessments, leveraging both quantitative analysis and localized market knowledge to make informed investment decisions. They emphasized current market conditions as the most favorable buying opportunity since 2012, with increasing distressed mortgage rates and motivated sellers creating promising prospects for strategic acquisitions.

In terms of investor alignment, Humphreys offers highly competitive terms, including a 1.5% management fee with potential discounts for early and large investors, reducing the fee to as low as 1% — an uncommon advantage in private equity real estate. Additionally, they provide a 9% preferred return, exceeding industry standards and demonstrating confidence in their ability to deliver strong returns. Humphreys Capital concluded their pitch by reaffirming their readiness to capitalize on current market dynamics, offering a distinctive opportunity for investors while contributing to the economic growth of Oklahoma.

Humphreys Capital led a discussion with the Board regarding market conditions and their investment strategy, noting that banks have become more conservative over the past four years due to ongoing market uncertainty. To hedge against inflation, Humphreys has diversified its portfolio across multi-family, self-storage, and hospitality assets. They anticipate a prolonged stable rate environment, with only minor compressions expected in mortgage and lending rates. The firm highlighted emerging opportunities from motivated sellers unwilling to continue infusing capital, as well as distressed assets facing foreclosure. Humphreys positions itself to provide rescue capital at favorable terms, securing long-term equity positions.

Doug Mosley presented a due diligence report on Humphreys Capital, noting that NEPC held two key meetings with the firm last year and found their fees to be competitive, slightly below market for early investors. He highlighted the discounts for fund size and first close, as well as the team's continuity. Mosley reaffirmed NEPC's long-term view that real estate offers attractive returns, balancing stocks and bonds with an income focus. He also mentioned that real estate is currently one of the most undervalued asset classes and emphasized the importance of maintaining allocation as some managers are expected to return capital soon.

Potential conflicts of interest were discussed regarding Humphreys Capital's inclusion on the OCAST-approved list of Oklahoma-based private equity, venture capital, and growth funds, noting that TSET is encouraged to invest in these funds under Section 2402. The Board and consultants highlighted Humphreys' potential to enhance geographic diversity in the portfolio and address the fund's underweight position in real estate, particularly in non-core investments. They also discussed the benefits of securing fee discounts and affirmed Humphreys Capital's reputable track record, noting its standard valuation methods, independent audits, and scrutiny comparable to other funds. Humphreys is the only real estate fund on the OCAST-approved list.

Mr. Ackerman moved to approve a \$20 million commitment to Humphreys Capital for investment in their fund V that was seconded by Mr. Waldo and passed unanimously by roll-call vote.

Discussion and Possible Action on the 2024 proxy voting summary report

Chairman Russ recognized Doug Moseley with NEPC to present the proxy voting summary report.

Proxy voting is typically managed behind the scenes by fund managers or proxy voting administrators. Proxy votes are considered plan assets and play a role in corporate governance decisions, including board elections, auditor ratifications, stock compensation awards, and policy changes. Management generally recommends voting in favor of their proposals, while shareholder proposals, often driven by ESG concerns, seek changes in corporate practices or governance. Over the past five to seven years, some public pension funds and endowments have become more activist in their voting strategies. The report analyzed proxy voting trends among different asset managers, showing that firms like Alliance-Bernstein, Barrow Hanley, and Earnest Partners have varied approaches, particularly regarding auditor tenure and shareholder proposals. There was a discussion on ensuring that proxy voting aligns with Oklahoma's values, with suggestions to track voting decisions more formally and possibly take control over voting shares if fund managers do not align with state interests.

Discussion of Siguler Guff DREOF II fund extension and sale Offer

Chairman Russ recognized Doug Moseley with NEPC to present the fund extension and sale Offer.

Siguler Guff DREOF II is an existing, closed end, real estate fund of funds that has so far returned about 97% of TSET's capital over more than 10 years. A secondary real estate firm called Cross Ocean evaluated the portfolio and made an offer to let existing investors exit but the offer was for only 60-62% of the current value. The management fee on the fund is dropping, and the manager that came in to buy will be helpful in pushing Siguler Guff to liquidate the fund as quickly as possible. Because taking the offer would dramatically lower the fund's lifetime return to 4%, the Board remained invested on NEPC's direction.

Discussion of estimated FY25 earnings as of December 31, 2024

Chairman Russ recognized OST Director of Portfolio Accounting and Reporting Phyllis Chan to present the estimated earnings.

Ms. Chan presented the estimated FY25 earnings for the 6 months ending December 31, 2024. Total estimated income was \$59.7 million, and the net gain was \$33.5 million. The total income with net gains was \$64.6 million. After deducting investment expenses of \$4.4 million and reserving \$500 thousand for auditing purposes, estimated earnings available were \$59.7 million.

Update on TSET Board of Directors activities

Chairman Russ recognized TSET Executive Director Julie Bisbee to present an update from the TSET Board of Directors.

The Board of Directors' budget is looking at additional disbursements for larger, one-time funding opportunities, anticipating the excess earnings available and the approval of a timeline for funding opportunities. TSET contracts are paid as reimbursements for work performed and agreement terms would be three years with the option to renew two years after. The Board-certified excess earnings totaling \$255 million, so the Board of Directors is looking to award \$20-30 million annually in addition to their normal budget over the next five years.

Comments and questions from Board members

There were none

New Business

There was none

Adjournment

Upon a motion by Mr. Waldo and a second by Mr. Ackerman, the Board voted unanimously to adjourn at 1:01 p.m.

Todd Russ, Chair

Tobacco Settlement Endowment Trust Fund Board of Investors