

**MEETING OF THE
BOARD OF INVESTORS OF THE
TOBACCO SETTLEMENT ENDOWMENT TRUST FUND
February 24, 2016**

State Regents Conference Room
655 Research Parkway, Suite 200
Oklahoma City, OK 73104

MINUTES

Call to Order

Vice-chair Brenda Bolander, called the meeting to order at approximately 10:30 a.m. on Wednesday, February 24, 2016.

Confirmation of quorum

Members of the Board present for the meeting were Vice-chair Brenda Bolander, Donald Pape, Todd Dobson and Scott Vaughn.

Others present were Paul Pustmueller and Sandra Rochell with the Bank of Oklahoma; Julie Bisbee and Tracey Strader with the TSET Board of Directors; Matthew Lafon with the Office of the Attorney General; and Kiran Nallayahgari, Lisa Murray, and Phyllis Chan with the Office of the State Treasurer.

Tim Allen, OST Deputy Treasurer for Communications and Program Administration, served as recording secretary.

Approval of minutes of the regular meeting on November 18, 2015

Mr. Vaughn moved to approve the minutes of the November 18, 2015 meeting. Ms. Bolander provided a second of the motion, which was unanimously approved by voice vote.

Presentation of report in regard to Tobacco Free Investments

Ms. Sandra Rochell, Senior Vice President, Bank of Oklahoma, verified that the fund was in compliance with the no-tobacco policy for the quarter ending December 31, 2015.

Presentation from the Board of Directors for the Oklahoma Tobacco Settlement Endowment Trust Fund

TSET Executive Director Tracey Strader presented a PowerPoint presentation outlining the strategic plan of the Board of Directors and discussed proposed constitutional amendments introduced in the Oklahoma Legislature for a vote of the people to change the purpose of the TSET fund and the allocation of certified investment earnings.

NOTE: Treasurer Ken Miller, chair, arrived at 10:45 a.m.

Presentation and discussion of fourth quarter investment performance and current asset allocation by Anthony Ferrara of NEPC

Mr. Ferrara presented the fourth quarter investment performance report for the Fund. The market value as of December 31, 2015 was \$956,131,775. The Fund had a one year return of 0.3%, underperforming the policy index by 120 basis points, but still ranked in the top quartile of a universe of peers. The three year performance was 5.8% and the five-year was 6.4% with the Fund ranking in the 58th and 41st percentile, respectively. Mr. Ferrara said the Fund's three-year standard deviation reflected that 74% of comparable endowments had higher portfolio risk.

Discussion of NEPC's observations and action by Anthony Ferrara and Linda Dennen of NEPC

Mr. Ferrara provided a review of capital market expectations for 2016. Ms. Dennen said the NEPC Asset Allocation Committee, plus members of various consulting practice groups, developed and revised the asset class assumptions for the analysis. NEPC projected the 5-7 year return expectations would be moderately higher among global equity and credit assets relative to the prior year, total return expectations for non-U.S. equities would be higher than last year and meaningful downside risks will remain in the developed and emerging world. Mr. Ferrara discussed the volatility forecasts and expected returns by asset class.

Discussion and possible action regarding changes recommended by NEPC to the Fund's asset allocation

NEPC recommended there should be no change in the equity allocation, but bonds be reduced from 35 percent to 31 percent and alternative investments increased from 25 percent to 29 percent. The proposed asset allocation changes would lead to a negligible increase in volatility of the over-all Fund and projected a 5-7 year expected return of 6 percent, resulting in a slight increase in the risk adjusted returns.

Treasurer Miller moved to approve asset allocation changes recommended by NEPC to:

- Decrease the dynamic fixed income allocation managed by Western Asset, from 8 percent to 4 percent.
- Increase the real estate allocation, specifically to Core, from 8 percent to 10 percent.
- Increase the private debt allocation, specifically to European direct lending, from 8 percent to 10 percent and issue a RFP to hire a third investment manager for the additional funding.

A second to the motion was made by Mr. Pape and was approved by unanimous roll call vote.

Discussion in regard to money manager watch list processes

Mr. Ferrara stated that approximately 90 percent of investment returns are derived from asset allocation, so this process would address the remaining percentage pertaining to money managers. NEPC has a built-in watch process through research teams, who are continuously evaluating and communicating with Fund managers. At the next meeting, a quarterly score card will be provided by NEPC reflecting manager ratings, any issues and possible actions and would demonstrate a regular due diligence process for Board review and consideration.

Update on the commitment call from UBS Trumbull Property Fund in the amount of \$10 million

Lisa Murray said UBS Trumbull called the additional commitment of \$10 million on January 4, 2016. NEPC had originally indicated it would be approximately one year before Trumbull would request the funds. At the August Board meeting, Mr. Stracke recommended that an additional \$10 million investment

be placed with Trumbull and that an update would be provided when the funding occurred in the previously approved and funded core real estate position.

Comments and questions from board members

There were none.

New Business

There was none.

Adjournment

Upon a motion by Mr. Pape and a second by Mr. Dobson, the board approved adjournment of the meeting by voice vote at approximately 12:00 p.m.

Ken Miller, Chairman
Tobacco Settlement Endowment Trust Fund Board of Investors