

**MEETING OF THE BOARD OF INVESTORS OF THE OKLAHOMA TOBACCO SETTLEMENT
ENDOWMENT TRUST**
November 29, 2017

Oklahoma State Capitol Building
2300 N. Lincoln Blvd., Governor's Large Conference Room
Oklahoma City, Oklahoma

MINUTES

Call to Order

Board Chair Ken Miller called the meeting to order at 10:36 a.m. on Wednesday, November 29, 2017.

Confirmation of quorum

Members of the Board present for the meeting were Chair Miller, Vice Chair Brenda Bolander, Donald Pape, and Todd Dobson. Member Scott Vaughn was not in attendance.

Others present were OST Chief Investment Officer Lisa Murray, Sandra Rochell, Paul Pustmueller and Paige Wolfe with Bank of Oklahoma, and Sherian Kerlin, Charles Hover 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 from the meetings on August 23, 2017

Upon a motion from Mr. Pape and a second from Ms. Bolander, the minutes from the August 23, 2017 meeting of the Board of Investors 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 the fund was in compliance with the no-tobacco policy for the quarter ending September 30, 2017.

Presentation of annual audit for FY17 presented by Finley & Cook

Dan Bledsoe, partner with Finley & Cook, made the presentation of the annual report to the Board. He said the audit went well and Finley & Cook provided its unqualified opinion. He said the financial statement presented fairly and in all material respects the financial position of the Trust as of June 30, 2017.

Discussion and Possible Action regarding revised earnings based on the Audit Report

Upon completion of the annual audit, Mr. Dobson moved to approve certification of an additional \$1,657,995.78 for FY-17 earnings to the Board of Directors as calculated according to Constitutional language in Article X, Section 40. Mr. Pape provided a second to the motion, which was unanimously adopted by voice vote.

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

Upon presentation of pertinent data, Mr. Pape moved to certify an additional \$13,104,185.81 from a reserve established in an agreement between the Board of Investors and the Board of Directors executed on February 16, 2012. Mr. Dobson provided a second to the motion, which was unanimously adopted by voice vote.

Discussion and Possible Action regarding the issuance of a request for proposal for auditing services

Sherian Kerlin, Director of Portfolio Accounting, stated the Trust had completed the final year of the auditing services contract with Finley & Cook and a request for proposals (RFP) would be released, upon approval of the Board. The RFP from the last bid cycle was used in creating the new solicitation. Mr. Pape moved to approve issuing a RFP for auditing services with Mr. Dobson providing a second to the motion. The motion was unanimously approved by voice vote.

Presentation and discussion of third quarter investment performance and current asset allocation

Mr. Tony Ferrara with NEPC said the economy was progressing at a steady rate with third quarter gross domestic product at 3%, the unemployment rate dropping to 4.2% and the rolling 12-month seasonally-adjusted consumer price index moving up to 2.2% from 1.6% at the end June. He said the U.S. equity markets had been on an eight-year run and as a result price earnings evaluations were high at about 30, in comparison to the long-term average of 17 and the ten-year average of 23. It was NEPC's opinion that U.S. equities are over-valued and will be recommending the reduction of this portfolio allocation at the February meeting. The market value of the Trust as of September 30, 2017 was \$1,168,321,848. The three month return was 3.5% and the fiscal-year-to-date return was 11%. The one-year return of 11.4% ranked the Trust in the 64th percentile of the InvestorForce all endowment universe and strongly outpaced the 5% real return spending target. The long-term ten-year return of 5.6% ranked the Trust in the 17th percentile. The estimated total portfolio fees were 0.43% and were considered low for a fund as diversified as the Trust. In fact, Mr. Ferrara said the average fees for public funds, as reflect in several recent surveys, was 0.56%-0.57%.

Discussion and Possible Action regarding capturing unrealized gains in money manager accounts

Mr. Ferrara stated that NEPC was asked to identify possible approaches to turn unrealized gains into realized gains, in order that they could become "certified earnings". NEPC

analyzed the manager portfolios, looked at the composition and liquidity, along with lowest sales transactions costs. Barrow Hanley has a concentrated large-cap portfolio comprised of 40 securities which are very liquid. As such, the entire portfolio could be sold and repurchased to realize a market gain. In addition, approximately 25% of State Street's Tobacco-free index fund could be liquidated to create additional market gains. Mr. Ferrara said the sale strategy would not be a long-term solution, but would provide a one-time infusion of certified earnings to the Trust. Discussion by the Board ensued, with concerns being expressed pertaining to possible Internal Revenue Code regulations, constitutional issues, Investment Policy restrictions and exactly how the liquidations would be executed. The Board requested that Matthew Lafon, Assistant Attorney General, research these areas of concern and provide a report at the next quarterly meeting. No action was taken by the Board.

Discussion of estimated FY18 earnings as of September 30, 2017

Ms. Kerlin reported that as of September 30, the estimated earnings for certification for the first quarter of FY-18 was \$6,903,672.

Received and file item of the Amendment No. 4 to the Fourth Amended and Restated Agreement of Limited Partnership of SJC offshore Capital Finance Fund, L.P.

OST CIO Lisa Murray reported this was a consent item for an extension of two additional one-year periods of the current partnership agreement with SJC Offshore Capital Finance Fund.

Discussion and Possible Action of opting out of the Iowa PERS v. Bank of America antitrust class action

Assistant Attorney General Matthew Lafon, counsel to the board, said it is very early in the litigation process for Iowa PERS v. Bank of America antitrust class action and TSET is currently a passive class member. Mr. Pape requested Mr. Lafon continue to follow the process of the lawsuit and provide updates to the Board.

Election of Vice Chair for 2018 per statutory requirement

Upon a motion by Mr. Dobson and a second by Mr. Pape, the board voted unanimously by voice to select Ms. Bolander as Board Vice Chair for calendar year 2018.

Discussion and possible action on meetings for 2018

By unanimous vote by voice upon a motion by Ms. Bolander and a second by Chair Miller, the board approved a meeting schedule for calendar year 2018 setting regular quarterly meetings on February 21, June 20, August 22, and November 28 with each starting at 10:30 a.m. in the Governor's Large Conference Room on the second floor of the Oklahoma State Capitol Building.

New Business

There was none.

Adjournment

Mr. Pape moved to adjourn the meeting with a second by Mr. Dobson. The motion was unanimously adopted by voice vote at 11:55 a.m.

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