

**MEETING OF THE
BOARD OF INVESTORS OF THE
OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT TRUST
February 22, 2017**

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

MINUTES

Call to Order

Treasurer Ken Miller called the meeting to order at 10:35 a.m. on Wednesday, February 22, 2017.

Confirmation of quorum

Members of the Board present for the meeting were Chairman Miller, Vice Chair Brenda Bolander, Todd Dobson, and Donald Pape. Scott Vaughn was absent.

Others present were Sandra Rochell and Paul Pustmueller with the Bank of Oklahoma; John Woods and Julie Bisbee with the TSET Board of Directors; and Lisa Murray, Sherian Kerlin, and Charles Hover 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 30, 2016

Mr. Dobson moved to approve the minutes of the November 30, 2016 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, 2016.

Presentation and discussion of fourth quarter investment performance and current asset allocation by Don Stracke of NEPC

Mr. Stracke began by providing a general market overview with the S&P 500 index and Barclays Aggregate earning 3.8% and -3.0% for the quarter and 12% and 2.6% for one-year, respectively. The international equity benchmarks, such as the MSCI EAFE came in at -0.7% for the quarter and 1% for the one-year return and the MSCI ACWI (excluding the United States) returned -1.3% for the quarter and 4.5% for a year.

The market value for the Fund was \$1,027,947,007 as of December 31, 2016 and earned a yield of 0.4% for the quarter, 7.7% for 2016 and 4.1% for the fiscal year. The Fund's annual return beat both the policy and allocation benchmarks of 7.4% and 7.3%, respectively. The annual return ranked the Fund in the 33rd percentile, outpacing the 5% real return spending target. The Fund's three and five year returns, gross of fees, came in at 4.2% and 7.5% respectively. The Fund continues to have a low risk-adjusted return with

80% of the endowment universe taking more risk based upon the 3-year annualized standard deviation. The asset allocation contained 42% equity, 26% fixed income, 6% private debt, 8% dynamic fixed income, 9% global tactical asset allocation and 9% in real estate.

Discussion and possible action regarding NEPC's 2017 observations and forecasts by Phil Nelson of NEPC

Mr. Nelson is in charge of the asset allocation office for NEPC in Boston. NEPC evaluated expected returns based on market pricing at the end of November and established forward looking views of fundamentals, growth and inflation to develop estimates over roughly a six year investment period. He discussed changes in the various asset classes expected returns from last year's estimates and their headline inflation expectations of 2 ½%. Key market themes included the anticipated continued growth of the U.S. economy in a relative subdued fashion, the continued upward move by the Fed of interest rates in a slow progression and the slight increase in the inflation outlook.

Discussion and possible action regarding the issuance of a request for proposals for U.S. direct lending money managers

Mr. Stracke said private debt was 2% under the portfolio target asset allocation and recommended that a request for proposal be issued for a U.S. direct lending mandate of approximately \$30-\$50 million. Mr. Pape moved to approve issuance of an RFP for U.S. direct lending money managers, with appropriate requirement for the manager's timely response to request for information from NEPC. A second to the motion was provided by Mr. Dobson, which was unanimously approved by voice vote.

Discussion and possible action regarding the issuance of a request for proposals for custodial and securities lending services

Lisa Murray stated it had been over five years since custodial and security lending services had been competitively bid. The Fund's current provider, Bank of Oklahoma, agreed last year to extend the current contract and it was the appropriate time to start the bid process. Mr. Pape moved to approve issuance of an RFP for custodial and securities lending services, with appropriate requirement for the financial institute's timely response to require for information from NEPC. Ms. Bolander offered a second to the motion, which was unanimously approved by voice vote.

Review of NEPC evaluation of The Humphrey's Company real estate fund offering, and discussion and possible action on the formalization of a process for evaluating and allocation to emerging money managers located in Oklahoma.

Mr. Stracke provided a preliminary analysis of the Humphreys Fund II, as requested by the Board. The close of the Fund II was scheduled for April, so an ad hoc approach would have to be taken to consider the firm. Mr. Pape moved to approve the development of a process by NEPC for evaluating and allocating to emerging money managers located in Oklahoma. Mr. Dobson offered a second to the motion, which was unanimously adopted by voice vote.

Discussion and possible action for approval of the State Street Global Advisors consent document

Ms. Murray said that due to Dodd Frank requirements, State Street is transferring its U.S. institutional investment manager business to State Street Global Advisors Trust at the first of May. This transfer would not affect TSET's current account. In addition, Matthew LaFon had reviewed the document and recommend the consent agreement be approved by the Board. Mr. Pape moved for approval of the State

Street Global Advisors consent document, which was seconded by Mr. Dobson. The motion was unanimously approved by voice vote.

Discussion of estimated FY-17 earnings as of December 31, 2016 by Sherian Kerlin, Director of Portfolio Accounting and Reporting

Sherian Kerlin introduced Charles Hover, the new Deputy Director of Portfolio Accounting and Reporting.

Ms. Kerlin said projected interim earnings as of December 31, 2016, as request by the Board, were approximately \$18.8 million available for certification. The Board discussed continuing concerns in regard to consistently achieving earnings to meet the target spend rate of 5%.

Comments and questions from board members

There were none.

New business

Due to a scheduling conflict with the availability of the Governor's Large Conference Room on the originally-scheduled meeting of the Board of Investors on June 14, Chairman Miller made a motion to change the meeting date to June 21 beginning at 10:30 a.m. A second to the motion was made by Mr. Pape, and the motion was unanimously adopted by voice vote.

Adjournment

Upon a motion by Mr. Pape and a second by Chairman Miller, the board approved adjournment of the meeting by voice vote at 11:52 a.m.

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