

**SPECIAL MEETING OF THE BOARD OF INVESTORS FOR THE OKLAHOMA TOBACCO  
SETTLEMENT ENDOWMENT TRUST FUND**

March 20, 2018

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

**Call to Order**

Board Chair Ken Miller called the meeting to order at 11:00 a.m. on Tuesday, March 20, 2018

**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 Rochelle and Paul Pustmueller with Bank of Oklahoma, Charlies Hover and Phyllis Chan with the Office of the State Treasurer, and Matthew LaFon, Assistant Attorney General and Counsel to the Board.

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

**Approval of minutes from the meeting on November 29, 2017**

Upon a motion by Mr. Pape and a second by Ms. Bolander, the minutes from the November 29, 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 December 31, 2017.

**Discussion and Possible Action regarding NEPC's 2018 observations and forecasts by Don Stracke of NEPC**

Mr. Stracke said NEPC estimates that the 5-7 year forecast horizon expected return to decrease from 5.9% to 5.6%, to just barely make the 5% spending policy, and a slight decrease in volatility. The 30-year forecast dropped slightly from 7% to 6.9% because of a projected increase in U.S. inflation and normalization of growth. The key market themes were the U.S. economy is in its fourth longest economic recovery in this century, so that could suggest that it might be at an inflection point where the stock market could drop. Due to the lower level of cumulative real GDP growth and the labor force participation rate, NEPC believes there still might be slack in the economy and room for growth. A positive outlook continues for the global economy, attributed to synchronized economic resurgence with the expansion of all major economies around the world.

**Presentation and discussion of fourth quarter investment performance and current asset allocation by Mr. Stracke**

The Trust's one-year performance as of December 31, 2017 was 14.6%, ranking in the 58<sup>th</sup> percentile, but strongly outpaced the 5% real return spending target. Over the last three years the net of fees return was 7.1% and was 7.5% for a five-year period. The five-year risk-adjusted returns ranked very favorably and were in the top quartile of the InvestorForce all endowment universe. The market value of the Trust was \$1,191,296,778. The asset allocation of the Trust was 22% large cap equity, 6% small to mid-cap equity, 17% non-U.S. equity, 10% core bonds, 10% absolute return fixed income, 7% high yield, 7% dynamic fixed income, 9% global tactical assets, 4% private debt and 8% in real estate.

**Presentation by Matt Lafon, Assistant Attorney General, regarding legal and tax questions pertaining to the possible action of capturing unrealized gains in money manager accounts**

Mr. LaFon said the Board requested an analysis on the proposal to sell part of the Trust's portfolio to realize capital gains and any possible conflicts with the Internal Revenue Code and its accompanying regulations on quick sales or other applicable laws. He said the Board should focus on its fiduciary responsibilities and the best interest of the Fund with weighing the long-term stability with short-term gains, any associated liquidation costs and market pricing fluctuations. Mr. Stracke said a planned liquidation would involve executing trades for non-investment reasons with no actual cash generation, but would provide a one-time increase in certified earnings.

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

General discussion ensued by the Board in regard to the potential positives and negatives of engaging in such a complicated issue. Upon a motion by Mr. Pape and a second by Ms. Bolander, the item was tabled by unanimous voice vote of the board.

**Discussion and Possible Action regarding the recommendation of firm selection for auditing services**

Charlie Hover, the Director of Portfolio Accounting and Reporting, said proposals were received in the search for auditing services from BKD and the current auditor, Finley & Cook. The review committee of Sherian Kerlin, Phyllis Chan and Mr. Hover made the recommendation to engage Finley & Cook based upon their proposed costs and experience with TSET. Mr. Pape moved to approve the engagement of Finley and Cook for TSET auditing services with a second provided by Mr. Dobson. The motion was unanimously approved by voice vote.

**Educational presentation in regard to Master Limited Partnerships by Salient Partners**

Marcus Smith, Director of Institutional Sales, and Ted Gardner, Managing Director for Salient Partners presented an educational market update in regard to Master Limited Partnerships (MLP). Performance comparisons and historical total returns were discussed. The current distribution yield on the Alerian MLP Index as of the end of January was 8.3%. The pair discussed their 2018 outlook with low current midstream valuations, strong signs of growing production volumes in crude oil, natural gas and natural gas liquids, consolidation of the midstream industry and recent changes in U.S. tax reform affecting the industry.

**Discussion and Possible Action to approve the issuance of a request for proposal for Master Limited Partnerships**

Mr. Dobson moved to approve a Request for Proposals be issued for Master Limited Partnerships. Mr. Pape provided a second to the motion, which was unanimously adopted by voice vote.

**Discussion of estimated FY18 earnings as of December 31, 2017 by Charles Hover, Director of Portfolio Accounting and Reporting, with the State Treasurer's Office**

Mr. Hover reported that as of December 31, 2017, the estimated earnings for the first two quarters of FY-18 were \$25,894,575.

**New Business**

There was none.

**Adjournment**

Upon a motion by Mr. Pape and a second by Ms. Bolander, the board unanimously voted by voice to adjourn the meeting at approximately 12:50 p.m.

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