

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

June 20, 2018

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

**Call to Order**

Treasurer Ken Miller, board chair, called the meeting to order at 10:33 a.m. on Wednesday, June 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, Charles Hover and Phyllis Chan with the Office of the State Treasurer, Jennifer Treadwell with the staff of the TSET Board of Directors, 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 March 20, 2018**

Upon a motion by Mr. Pape and a second by Ms. Bolander, the minutes from the March 20, 2018 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 March 31, 2018.

**Discussion and review of Master Limited Partnership (MLP) search by Tony Ferrara with NEPC**

Tony Ferrara, with NEPC, said a request for proposal for master limited partnerships was issued on April 6 and manager responses were due by April 30. The mandate was for 5% allocation of the Fund or approximately \$60 million. There were 16 responses from 14 money manager firms. There were 4 firms that were semifinalists, which were Salient Partners, Tortoise Capital, Cushing Asset and Kayne Anderson. Mr. Ferrara said the semifinalists were interviewed via conference call by himself and Lisa Murray. After the conference calls and talking to the NEPC research analyst, the selected finalists were Salient Partners and Tortoise Capital. These two firms scored the highest and were preferred after conducting the conference calls.

**MLP presentation by Tortoise Capital**

Presenting for Tortoise Capital were Messrs. Kevin Birzer and Matthew Sallee. Mr. Birzer, Managing Partner, began by stating that it is a good time to be in the midstream energy space, with the market class being inexpensive and with a tremendous growth potential. Tortoise is based in Kansas and has \$7 billion in midstream-focused separately managed accounts, making up 36% of the firm. They have a dedicated energy team with a total of 154 employees, a stable process-driven approach and a focus on outperforming the index.

### **MLP presentation by Salient Partners**

Messrs. Marcus Smith and Ted Gardner made the presentation for Salient Partners. The firm was founded in 2002, has \$8 billion assets under management and 85 employees and is based in Houston. Public plans represent 50% of assets by client type along with healthcare at 22%, and endowments and foundations at 9%. The portfolio has approximately 20-30 positions comprised of MLPs, MLP General Partners, MLP Affiliates and Midstream Companies. Salient focuses only on the midstream space.

### **Discussion and Possible Action on the selection of the MLP investment manager**

Discussion ensued in regard to the value of hiring only one MLP manager in order to qualify for the dollar amount to establish a separately managed account for the Trust. Mr. Ferrara stated that Salient would participate more in the upside growth capture of the MLP market. Tortoise would not go up as much with the market, but would have better market returns in a down market. Tortoise has a broader team with a longer track record than Salient.

Chairman Miller moved to hire Tortoise Capital to be the new MLP manager. The motion was seconded by Mr. Dobson. With Mr. Pape abstaining due to a conflict of interest, the motion was approved by voice vote with no opposition.

### **Discussion and possible action on Fund budgetary matters**

Upon a motion by Mr. Dobson and a second by Chairman Miller, the board voted unanimously by voice to approve the submitted revised FY-2018 and FY-2019 budgets.

### **Approval of intra-agency administrative and legal contracts with the Treasurer's Office**

Lisa Murray stated the fiscal year expense for the Treasurer's office to provide TSET with accounting and financial services for FY19 would be \$152,964. The legal service costs would be \$12,605. The administrative increase of 1.6% was due to changes in personnel expenses and the cost of OMES ISD to support Sage software, which is used solely to account for TSET investments.

With a motion by Mr. Pape and a second by Mr. Dobson, the board, by voice, voted unanimously to approve the FY-2019 intra-agency administrative and legal contracts with the Treasurer's Office.

### **Presentation and discussion of FY-18 third quarter investment performance and current asset allocation**

Mr. Ferrara said the Trust's FY18 return as of March 31 was 6.6% and the one year return was 9.8%, ranking in the 51<sup>st</sup> percentile and outpacing the 5% real return spending target. The internal rate of return for one-year on a time weighted basis was 4.7% for private debt and 9.3% for the real estate allocation. The market value for the Trust was \$1,174,256,870 with a portfolio allocation of 45% equity, 35% fixed income, 3% private debt, 9% global tactical and 8% real estate.

## **Ratification of Amendment to Investment Management Agreement with Schroder Investment Management North America Inc**

Lisa Murray met in May with Schroder's Client Portfolio Manager and the Institutional Director to review the performance and activities of the fund. They said that the TSET fees would be reduced, which would annually save approximately \$75,000. Matt Lafon, Assistant Attorney General, had reviewed the amendment document and it had been executed by Treasurer Miller. She asked the Board for their ratification of the document.

Mr. Dobson made a motion to ratify the Schroder Amendment to the Investment Management Agreement as submitted. Mr. Pape provided a second. The motion was unanimously approved by voice vote of the board.

## **Discussion and Possible Action in regard to management changes at UBS Trumbull Property Fund**

No action was taken.

## **Discussion of estimated FY18 earnings as of March 31, 2018**

Charles Hover, OST Director of Portfolio Accounting and Reporting, reported that as of March 31, 2018, the estimated earnings for three quarters of FY-18 were \$38,652,515.

## **Comments and questions from board members**

Chairman Miller announced that Mr. Vaughn, appointee of the Speaker of the House, had tendered his resignation from the board after being appointed to the OSU-Tulsa Board of Trustees by Governor Fallin.

Chairman Miller also thanked Mr. Pape for his service to the people of Oklahoma during his tenure on the board. The term of Mr. Pape, an appointee of the Senate President Pro Tempore was set to expire on June 30, 2018.

## **New business**

There was none.

## **Adjournment**

Upon a motion by Mr. Pape and second by Ms. Bolander, the board voted unanimously by voice to adjourn at 12:46 p.m.

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