

**MINUTES OF THE MEETING OF THE BOARD OF INVESTORS FOR THE  
OKLAHOMA TOBACCO SETTLEMENT TRUST FUND (TSET)**

**August 21, 2024**

**State Capitol Building, Room 230  
2300 N. Lincoln Blvd.  
Oklahoma City, OK 73105**

**Call to order.**

Treasurer Todd Russ, Chair of the Board, called the meeting to order at 10:03 am on Wednesday, August 21, 2024.

Confirmation of quorum.

Members of the Board present at the start of the meeting were Treasurer Russ, Deborah Mueggenborg, Aaron Ackerman, and Brenda Bolander.

Others present at the meeting were OST Director of Portfolio Accounting and Reporting Phyllis Chan; OST Manager of Portfolio Accounting and Reporting Donna Beeman; Assistant Attorney General Ben Graves; NEPC Advisor Doug Moseley; Evan Walter with BOK Financial; TSET Policy Manager Lauren Carter, OST Chief Policy Advisor Andy Ferguson, OST Digital Media Coordinator Lara Blubaugh, OST Chief of Staff Jordan Harvey, and OST Investment Assistant Andrew Gardner.

Andrew Gardner served as recording secretary.

**Approval of minutes from the meeting on June 19, 2024.**

Upon a motion by Ms. Mueggenborg and a second by Mr. Ackerman, the minutes from the June 19, 2024 Board meeting were unanimously adopted by the Board's roll-call vote.

**Presentation of report regarding Tobacco Free Investments by BOK Financial.**

Chairman Russ recognized Mr. Walter to present this item. Mr. Walter verified that the Trust was in compliance with the no-tobacco policy for the quarter that ended June 30, 2024.

**Discussion and possible action on FY 24 Certified Earnings.**

Chairman Russ recognized Portfolio Accounting and Reporting Director Phyllis Chan to present the certified earnings. Ms. Chan presented the calculated fiscal year 2024 certified earnings for the 12 months ending June 30, 2024. The total income with net gains was \$97.5 million. Ms. Chan asked for approval and certification for FY24 earnings in the amount of \$86,838,423.23 which reflected the deduction of \$10.2 million in investment expenses and reserved \$500 thousand for audited financials. Ms. Mueggenborg made a motion to accept the fiscal year 2024 earnings as presented. The motion was seconded by Mr. Ackerman. The motion was unanimously adopted by roll-call vote.

**Update on TSET Board of Directors Activities.**

Chairman Russ recognized TSET Policy Manager Lauren Carter to present an update from the

TSET Board of Directors. This month TSET launched a new initiative called talk about tobacco, part of the tobacco stops with me brand. The initiative focuses on talking about the dangers of tobacco and flavored vaping products and gives resources to parents and teachers to start these conversations.

### **Discussion and review of the U.S. direct lending search.**

Chairman Russ recognized NEPC Advisor Doug Moseley to present an update on the request for proposal (RFP) for direct lending managers. The TSET portfolio currently has a private debt policy target of 13% with 5.6%, or \$108 million, being allocated between three fund managers.

NEPC targeted a \$100 million dollar commitment to an evergreen fund, which continually reinvests capital. 29 firms participated in the RFP process and were screened to 5 U.S. direct lending managers. Most direct lending managers spread capital across 30 to 50 loans and call the capital over a 3-year period. Mr. Moseley advised that the managers likely have price flexibility because they know the Board may increase the commitment next year.

Evergreen funds should have peak diversification by year 3 and as the loans mature, the lenders are making new loans and investors can opt to receive coupons. Many of the managers provide a 2-3% quarterly distribution yield or a 10% distribution yield annually, which is attributed to why the funds are attractive to investors. The regular bond portfolio still earns 4-5% but locking the capital up for an illiquidity premium earns an additional 4-6% from these kinds of investments. Mr. Moseley advised the Board that many of the managers they were interviewing could be paired in a complimentary way in order to spread and reduce risk.

### **U.S. direct lending manager presentations**

The board welcomed Greg Reynolds and Lee Landrum with Comvest.

Comvest is a middle market asset manager and private credit manager with \$12.5 billion in assets under management. They are mid-sized and focused on the middle market. Approximately \$10.5 billion of that capital is in Comvest's private credit strategy, which is primarily direct lending. The firm has more than 125 employees and is based in West Palm Beach Florida.

They differentiated themselves from firms that deploy large amounts of capital quickly to firms that are owned by private equity, which reflects half of Comvest's loans. Cash flow loans, where Comvest is underwriting the value of the business, constitute 75% of their loans. Asset-based loans constitute the other 25%. A centerpiece of Comvest's strategy is having high quality protections or covenants with their borrowers. If their borrowers underperform their budget by a certain amount then Comvest, as a senior lender, can minimize their loss. Comvest's borrowers have average earnings before interest, taxes, depreciation, and amortization (EBITDA) of \$35 million. Mr. Landrum said the firm does not focus on environmental, social and governance (ESG) issues.

The Board welcomed Michael Tamasco and Ashok Nayyar from MC Credit Partners.

MC Credit's strategy largely consists of highly syndicated loans that are self-originated. MC Credit acts like a big bank in these deals, because big banks prefer syndication. MC Credit generates their alpha by negotiating higher fees for themselves, skimming more interest off the loan than the other lenders in the syndication. MC Credit talked at length about their personnel

and the companies they hailed from.

The Board welcomed Trevor Clark and Sharone Benezra from TPG Angelo Gordon.

Angelo Gordon presented that their unique feature is that they have more names than any other manager in their portfolio and that they are highly selective and more diversified across sponsors than other managers. The firm is currently earning about 12% returns and boasts about carrying out the same model for 23 years. TPG Angelo Gordon is one of the leaders in the direct lending market which means they can deploy capital rapidly. They have very strong deal flow and pipeline and only close between 3-4% of their deals. They have covenants with their borrowers and told the Board about how they keep a heartbeat on their borrowers and can push actions to prevent loss of capital and their team has very few losses.

The Board noted that Angelo Gordon has fewer deals and writes larger loans.

The Board welcomed Chris Lund and Christopher Jaques from Monroe Capital.

Monroe Capital is a \$19.5 billion private credit asset manager headquartered in Chicago. Monroe specializes in lending to lower middle market companies, doing \$3 million to \$35 million of EBITDA. The firm focuses on a larger volume of deals and likes making loans to family and entrepreneur owned businesses, because they can earn approximately an additional 4% on them. The typical target borrower has been in business for about 20 years and generates \$100-150 million of value from \$20-25 million in cash flow. 20% of their deals are non-sponsored and the other 80% are private equity. Last year, among companies purchased with less than \$40 million dollars cash flow, Monroe was the largest lender and closed on 105 deals out of about two thousand and deployed about \$4 billion. Monroe's average deal is about \$100 million dollars.

The fund is leveraged to drive attractive returns. Monroe writes senior secured loans, where they are in control of the deal, typically earning a 10-13% coupon from borrowers. After the benefits of leverage, the firm is generating a net return of over 13-15%. Monroe mentioned their low founders' fees which they are offering to help raise capital and get their perpetual fund launched.

The Board welcomed Susan Kasser and Cheryl Cannistra from Neuberger Berman.

Neuberger Berman's diversified platform manages \$481 billion of assets and includes \$31 billion in private credit of which direct lending is the cornerstone. Capital preservation is very important. Neuberger made 220 loans exclusively to private equity owned companies and the annualized default rate was only 0.03%, not including recoveries, over a 10-year period. The levered portfolio delivered to investors a net annualized return of 13.5%. Because of strong gross cash yields and historic interest rates the portfolio has achieved a 15.7% gross cash yield. Because Neuberger only make deals with sponsored borrowers their coupon is smaller because they carry less risk. Their average borrower's EBITDA is \$90 million, with a target net levered return of 10-13%.

Neuberger expressed averseness to investing in companies that did not conform to international ESG standards. They viewed the ESG issues as issues of noncompliance where a legal obligation could prevent the company from fulfilling the debt obligation. The implication is that they don't do business with non-compliant borrowers. But if any ESG issue did not affect a borrower's ability to repay the loan and the firm was legally compliant then they would write the

loan. It is not an objective of Neuberger Berman to reduce their carbon emissions, but it is required in their reporting because their other investors requested. ESG factors can influence their investment decision, but they would never reject an investment based on its carbon footprint or diversity initiatives. The firm has impact funds that it manages in other departments that do not overlap with the private debt business.

### **Discussion and possible action on the selection of U.S. direct lending investment managers.**

The Board began to discuss their decision on which managers to hire, along with the \$100 million current mandate and the approximate \$100 million in additional commitment in the next year or so. The Board preferred to hire two managers for the mandate, thus avoiding a second RFP for U.S. private debt next year.

Mr. Moseley mentioned that NEPC could negotiate the fees with Comvest because of their number of clients with them and their relationship discount. The Board authorized Mr. Moseley to gather information and present the best and final offers from each of the managers. The Board agreed to hold a special meeting, with an executive session, to make a final selection of managers.

Mr. Ackerman made a motion to authorize NEPC to continue working with Angelo Gordon, Comvest, Monroe, and Neuberger to determine their best fees and present them. The motion was seconded by Ms. Bolander and the Board accepted the motion unanimously by roll call vote.

### **Presentation and discussion of FY 2024 fourth quarter investment performance.**

Treasurer Russ recognized Mr. Moseley to present. Mr. Moseley reported that the market value of the trust as of June 30, 2024, was \$1,923,513,792. The quarterly return was 1.59% and the one-year return came in at 11.86%, both net of fees. The one-year return was ranked in the 51st percentile and outperformed the policy index by 0.01%. The three-year return was 4.73% net of fees, ranking in the 6th percentile and underperforming the policy index by 0.65%. Finally, the five-year return was 8.01% net of fees, ranking in the 20th percentile and outperforming the policy index by 0.24%. Of the \$1.92 billion in total assets, \$34.1 million came from an investment gain within the last calendar quarter, and \$209 million was gained within the last year.

### **Notification to extend the AEW Fund VII liquidation plan.**

The AEW Fund VII is a real estate investment manager that has some remaining positions, and the firm asked for a liquidation extension. NEPC advised the board that this was a standard request for a closed-end fund, as they wind down the investments, and that there were no concerns with troubled assets.

Ms. Bolander made a motion to give after the fact approval on the signature filed on the report and the motion was seconded by Ms. Mueggenborg and adopted unanimously by roll call vote.

### **Discussion and possible action regarding class action proof of claims filed by BOK Financial and/or the Chicago Clearing Corporation on behalf of the Board of investors.**

The assistant attorney general advised the committee that they did not need to vote on

approving the class action proof of claims filed by BOK Financial and/or the Chicago Clearing Corporation on behalf of the Board of Investors. There was no action.

**Comments and questions from Board members.**

There were none.

**New Business.**

There was none.

**Adjournment.**

Upon a motion by Ms. Mueggenborg and a second by Mr. Ackerman, the Board voted unanimously to adjourn at 2:05 p.m.

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Todd Russ, Chair  
Tobacco Settlement Endowment Trust Fund Board of Investors