

Memorandum

To: Political subdivisions eligible to receive annual distributions from the Tobacco Settlement Permanent Trust Account

From: Stuart Ford, Chairman
On behalf of the Tobacco Settlement Permanent Trust Account Investment Advisory Committee (“Committee”)

Date: April 2, 2015

Subject: Plan for same distribution in 2016 as was received in 2014

I am pleased to inform you that investment returns on the Trust were sufficient to allow for a 10% increase in this year’s distribution. In addition to increasing the distribution, the Committee added significantly to the Trust’s “rainy day fund,” which exists to supplement distributions during times of poor market conditions. That safety net was significantly reduced following the 2008 financial crisis and rebuilding its balance continues to be a goal of the Committee.

In the interest of conservative planning, the Committee advises you to budget for no more than you received in 2014 for next year (2016). In other words, it may not be possible to match this year’s distribution next year. While the Trust is back on good footing, it is not to the point that the Committee is comfortable providing guidance to expect increased distributions for the time being.

One of the objectives of the Trust is to maintain stable, predictable annual distributions. That is the reason for the “rainy day fund,” technically known as the Distribution Stabilization Account (DSA). It is used to supplement annual distributions when earnings are depressed. After accounting for the contribution we were able to make this year, the DSA balance is back to about 64% of its level prior to the 2008 financial crisis.

The Trust Account is a permanent endowment and its purchasing power must be preserved so that future generations benefit equally, relative to those of today. While the U.S. economy is undergoing a slow recovery, the global macroeconomic environment remains somewhat fragile. The Trust investment portfolio continues to be positioned conservatively, with a focus on downside protection and preservation of capital.

We hope this guidance is helpful to your planning process. If you have questions about the Trust, please contact Paul Ballard, CEO and Chief Investment Officer of the Texas Treasury Safekeeping Trust Company. He may be reached at (512) 463-4300. Thank you.