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Jonathan Barry, *Executive Secretary*

AGENDA

May 7, 2019
12:00 P.M.

Board of Commissioners of Public Lands
101 E. Wilson Street, 2nd Floor
Madison, Wisconsin

Routine Business:

- 1) Call to Order
- 2) Approve Minutes - April 16, 2019 (Attachment)
- 3) Approve Loans (Attachment)

Old Business:

- 4) Discuss Transferring the Unclaimed Property Program from the Department of Revenue to the State Treasurer's Office

New Business:

- 5) Discussion and Potential Vote on Board's Endorsement of Governor's Biennial Budget Request for BCPL, including item 6 below
- 6) Request to include a Gifts and Grants Appropriation Line

Routine Business:

- 7) Chief Investment Officer's Report (Attachments)
- 8) Executive Secretary's Report
- 9) Board Chair's Report
- 10) Future Agenda Items
- 11) Adjourn

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**BOARD MEETING
MAY 7, 2019**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the April 16, 2019, board meeting.

Board Meeting Minutes
April 16, 2019

Present in person were:

- Sarah Godlewski, Board Chair
Jonathan Barry, Executive Secretary
Tom German, Deputy Secretary
Vicki Halverson, Office Manager
Richard Sneider, Chief Investment Officer
State Treasurer
Board of Commissioners of Public Lands

Present via teleconference were:

- Josh Kaul, Commissioner
Attorney General

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 2:00 p.m. Commissioner La Follette was unable to attend.

ITEM 2. APPROVE MINUTES - APRIL 2, 2019

MOTION: Commissioner Kaul moved to approve the minutes; Board Chair Godlewski seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 2-0.

ITEM 3. APPROVE LOANS

Table with 4 columns: Municipality, Municipal Type, Loan Type, Loan Amount. Contains 3 loan entries and a total row.

Mr. Sneider reported that the loans had received legal review by the Attorney General’s Office. He added that the River Ridge School District loan will be used to finance phase one of a two-phase project.

MOTION: Commissioner Kaul moved to approve the loans; Board Chair Godlewski seconded the motion.

DISCUSSION: Commissioner Kaul asked if the amount borrowed by the River Ridge School District was under the threshold requiring a referendum. Mr. Sneider explained that the school district utilized the \$1 million

exemption borrowing procedure. State statutes allow all school districts to use this procedure, which utilizes each school board's limited authority to borrow funds totaling up to \$1,000,000 without elector approval. The school district will finance phase two of the project through the State Trust Fund Loan Program utilizing the publishing procedure. That borrowing procedure requires that the school district publish a legal notice informing district electors of the intent to borrow the funds. Electors within the district have 30 days after publication to collect the required number of signatures and file a petition calling for a referendum. If no petition has been filed after 30 days, the resolution is deemed elector approved.

VOTE: The motion passed 2-0.

ITEM 4. DISCUSS THE POSSIBILITY OF DRAFTING STATUTE LANGUAGE TO RETURN THE UNCLAIMED PROPERTY PROGRAM TO THE STATE TREASURER'S OFFICE

Commissioner Kaul noted that while the Board does have an interest in the matter because they administer the Fund (Common School Fund) that receives residual unclaimed property monies, the transfer of the Unclaimed Property Program back to the State Treasurer's Office relates ultimately to the powers of that office. Staff will share the concerns expressed at the meeting with Commissioner La Follette. The topic will also be included for discussion on the May 7 board meeting agenda.

ITEM 5. DISCUSS BCPL COMMITMENT TO GENER8TOR FUND VII

Mr. Sneider reported that the Investment Committee recently approved committing \$3 million to this venture capital fund. He gave an overview of the company and explained that they invest in start-up companies in the Madison, Milwaukee, Cincinnati and Minneapolis areas. Annual investments from the Common School Fund will total \$1 million over the next three years. This is the seventh venture capital fund that the company has launched. Three earlier funds have matured to the point where they can be compared to other peer groups. Those funds saw annual returns averaging 15%.

Board Chair Godlewski thanked staff for their research and due diligence examining the investment opportunity. She felt the investment will deliver strong financial returns to the Common School Fund. gener8tor had a significant impact in Wisconsin by investing in small companies. Commissioner Kaul expressed his thanks to the Board Chair and staff.

The next two agenda items were discussed in the order in which they appear below.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Barry asked the Board to endorse BCPL's budget request. This would allow staff to meet with legislators and discuss the agency's request. The agency's submitted budget request included only the standard adjustments for increased leasing costs to DOA and general salary adjustments. Deputy Secretary German said the agency currently has no authority to accept gifts and grants. The agency's budget request would need to be amended to provide a gifts and grants line appropriation. A recent offer of a grant from the Ruffed Grouse Society to identify all roads on School Trust Lands brought this budget limitation to light. He added that the Board could respectfully request the Joint Finance Committee to consider amending the agency's budget to include a gifts and grants line appropriation.

Board Chair Godlewski asked if past Boards endorsed BCPL's budget and how those endorsements were communicated to the legislature. Staff replied past Boards have and the board minutes reflected those endorsements. She asked that the topic be included for discussion on the May 7 board meeting agenda.

The Board and staff discussed the possibility of requesting stand-alone legislation for the gifts and grants appropriation line if Joint Finance chooses not to amend the agency's budget.

Executive Secretary Barry reported that Sen. LeMahieu's office contacted him regarding financing an athletic complex for a municipality within his legislative district. Staff are ready to assist should the municipality decide to use the State Trust Fund Loan program for the project.

He also received a call from Sen. Cowles' office regarding potential legislation relating to the replacement of lead laterals for school districts and financing options for same. He and Deputy Secretary German met with the Senator's staff to discuss the topic and suggested that the DNR/DOA Clean Water Program may be a financing model worth considering. That program offers interest rate subsidies to local government borrowers.

Finally, a process is underway with DOA human resources regarding competitive salaries within the agency. Staff will provide updates as they become available.

ITEM 6. BOARD CHAIR'S REPORT

Board Chair Godlewski reported that she met with Assistant Attorney General Vandermeuse to discuss the State Treasurer's authority to request an audit of the Unclaimed Property Program and recent legislation that diverts fines and forfeitures from the Common School Fund to the General Fund. Those discussions are on-going, and she will provide updates at future board meetings.

She met with the DOA Deputy Secretary to discuss competitive salaries at BCPL, and DOA indicated that their office would be an advocate for BCPL on the matter.

She met with the DNR Secretary to discuss their wetland mitigation banking program and a potential partnership with BCPL.

ITEM 8. FUTURE AGENDA ITEMS

New Business:

- Board's endorsement of BCPL's budget request
- Request an amendment to the agency's budget to include a gifts and grants appropriation line

Old Business:

- Discuss Transfer of Unclaimed Property Program from the DOR to the State Treasurer's Office

Commissioner Kaul asked staff what the next steps were regarding the potential legislation to fund replacing lead laterals for school districts. Deputy Secretary German replied that the process was in the early stages, and the Board would be informed of any developments.

ITEM 9. ADJOURN

Board Chair Godlewski moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed unanimously, and the meeting adjourned at 2:29 p.m.


Jonathan B. Barry, Executive Secretary

These minutes have been prepared from a recording of the meeting. The summaries have not been transcribed verbatim. Link to audio recording: https://bcpl.wisconsin.gov/Shared%20Documents/Board%20Meeting%20Docs/2019/2019-04-16_BoardMtgRecording.mp3

**BOARD MEETING
MAY 7, 2019**

**AGENDA ITEM 3
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Conover Vilas County Application #: 02019124 Purpose: Purchase highway equipment	Town Rate: 4.00% Term: 5 years	General Obligation	\$139,559.00
2. Conover Vilas County Application #: 02019125 Purpose: Construct salt shed	Town Rate: 4.00% Term: 5 years	General Obligation	\$114,354.00
3. Cumberland Barron County Application #: 02019117 Purpose: Construct golf course maintenance building	City Rate: 4.50% Term: 20 years	General Obligation	\$265,000.00
4. Dewey Portage County Application #: 02019121 Purpose: Finance roof repairs	Town Rate: 4.00% Term: 3 years	General Obligation	\$36,500.00
5. Elkhart Lake - Glenbeulah Sheboygan County Application #: 02019128 Purpose: Finance school improvements	School Rate: 4.00% Term: 5 years	General Obligation	\$800,000.00
6. Iola Waupaca County Application #: 02019120 Purpose: Refinance library expansion loan	Village Rate: 4.50% Term: 15 years	General Obligation	\$350,000.00
7. Jackson Burnett County Application #: 02019119 Purpose: Purchase fire truck	Town Rate: 4.00% Term: 4 years	General Obligation	\$125,000.00
8. North Freedom Sauk County Application #: 02019118 Purpose: Finance street construction	Village Rate: 4.25% Term: 10 years	General Obligation	\$90,000.00

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
9. Omro Winnebago County Application #: 02019122 Purpose: Purchase land and building	City Rate: 4.25% Term: 10 years	General Obligation	\$310,000.00
10. Oregon Dane County Application #: 02019129 Purpose: Finance Thysee Printing development incentive	Village Rate: 4.50% Term: 20 years	General Obligation	\$1,000,000.00
11. Scott Crawford County Application #: 02019127 Purpose: Finance bridge repairs	Town Rate: 4.25% Term: 10 years	General Obligation	\$100,000.00
12. Shawano Shawano County Application #: 02019123 Purpose: Finance jail and 911 system upgrades	County Rate: 4.25% Term: 10 years	General Obligation	\$4,506,000.00
TOTAL			\$7,836,413.00

**BOARD MEETING
MAY 7, 2019**

**AGENDA ITEM 7
CHIEF INVESTMENT OFFICER'S REPORT - APRIL**

Staff remains cautious in the acquisition of public equities as several stock market indices reached record high levels during April. As previously noted, the diversification process continues with staff remaining prudent regarding entry points.

The benchmark 10-year Treasury reached a 15-month low near 2.35% in March. Volatility continued throughout April, with the rate increasing to 2.60% before settling back down towards 2.50%. The sale of lower-yielding bonds before the April rate increase was advantageous (bond prices go down when interest rates increase). These lower-yielding bonds had been acquired years ago, when cash returns were near 0% and BCPL had no options beyond the fixed-income asset class.

Selling these bonds has the effect of increasing the yield on the remaining bond portfolio. In addition, the increase in liquidity improves our ability to acquire risk assets in case of an expected market downturn. The opportunity cost of holding cash has also become more reasonable. Cash held in the State Investment Fund is now paying near 2.5% and longer-term rates are not much better (the yield curve is relatively flat).

The BCPL Investment Committee continues to meet with real estate asset managers and venture capital firms to explore current opportunities in those markets.

For many years, the board has been provided with quarterly statements that compare our entire fixed income portfolio against our custom benchmark. This tool is used to measure the effectiveness and performance of BCPL portfolio management. Staff is developing the ability of our portfolio management software to provide an analysis of public equity performance in future quarterly statements.

Each quarter the data has shown that BCPL fixed-income management has outperformed the benchmark by wide margins. However, staff was curious regarding how much of that performance was due to the BCPL State Trust Fund Loan Program, which provides an above-average risk-adjusted return profile to the portfolio.

To answer that question, the loan portfolio and public bond portfolios were separated and measured individually against our benchmark. The findings are included in attachments 1 and 2, and confirm:

1. The State Trust Fund Loan Program delivers assets with excellent risk-adjusted returns. Attachment 1 shows the loan portfolio yield exceeds the benchmark by 1.21%.
2. The public bond portfolio outperforms its benchmark by a margin of 0.73%. This result shows that the success of BCPL portfolio management is not solely attributable to the Loan Program.

To quantify what these numbers mean to our Trust Fund beneficiaries, we can compare the annual distributions that would be generated if the funds were invested at the benchmark returns vs. the returns produced by BCPL:

If the Trust Funds currently invested in BCPL State Trust Fund Loans and publicly-traded bonds earned returns equal to their benchmark, the distribution to our beneficiaries would be reduced by \$8.7 million annually.

Attachments

1. 1st Quarter STFL Benchmark Comparison
2. 1st Quarter Public Bond Benchmark Comparison
3. Investment Transaction Report
4. Month-End Portfolio Report - Public Bonds
5. Month-End Portfolio Report - Public Equities

BCPL
BCPL State Trust Fund Loan - Benchmark Comparison
1st Quarter 2019
as of March 31, 2019

	Investment	Expected Yield ²	Average Credit Quality	Weighted Avg Maturity	
BCPL State Trust Fund Loan Portfolio	\$ 433,280,052	3.78%	Aa1	4.47	Yrs
Benchmark - S&P Short Intemediate Taxable Municipal Bond Index ¹		2.72%	Aa3	2.74	Yrs
BCPL Absolute Yield Relative to Benchmark		1.06%	++	1.73	Yrs
Adjustment for Better Credit Quality Compared to Benchmark ³		0.24%			
Adjustment for Shorter Maturity Compared to Benchmark ⁴		-0.09%			
BCPL Risk-Adjusted Yield Relative to Benchmark		1.21%			

Impact on Annual Distribution to Beneficiaries \$ 433,280,052 x 1.21% = \$ **5,242,689**

Notes:

¹ There is no benchmark that is a perfect match to BCPL loan portfolio, which is comprised of BCPL State Trust Fund Loans issued only to Wisconsin municipalities and school districts. The closest readily available benchmark is the S&P Taxable Municipal Bond Index, which includes bonds from all 50 states plus U.S. territories. The S&P Index is further subdivided by bond maturity into 5 sub-indices, including the Short Intermediate classification used here. However, the muni bonds that comprise this benchmark have a shorter average maturity and lower credit quality than the loans held in the BCPL portfolio. Therefore, adjustments to the yield differential need to be made when comparing the portfolio to the benchmark. The adjustment for credit quality is detailed in Note 3, while the adjustment for maturity is detailed in Note 4.

² Also called yield-to-worst, the 'Expected Yield' is equal to the lower of the yield to the call date and yield to the maturity date for each investment in the portfolio. The yield to the call date and the yield to the maturity date will be different for any security that was purchased at a price higher or lower than the bond par value. The Expected Yield of the portfolio is the weighted average yield to the redemption date for each bond, and assumes that all bonds will be redeemed at their earliest possible date, when it is in the best interest of the issuer given current market interest rates.

³ Credit Quality Adjustment - All else equal, a portfolio with lower credit quality requires a higher yield because the investor assumes a higher level of default risk. Therefore, when comparing portfolios with different credit scores, an adjustment is made to increase the relative yield for the portfolio with the higher credit quality. The adjustment necessary in this case is for 2 notches in credit score, or 2/3 of the yield difference between the AA-rated and A-Rated S&P Taxable Bond Funds.

⁴ All else equal and under normal conditions, a fixed-income portfolio with a shorter maturity will have a lower expected yield. To compensate for this initial difference in maturity, the makeup of the benchmark was changed to include a 14.36% allocation to the S&P Taxable Municipal Bond Index. This adjustment made the average maturity of the benchmark equal to the average maturity of the BCPL portfolio, and increased the benchmark yield by 0.09%.

BCPL
Public Bond Benchmark Comparison
1st Quarter 2019

as of March 31, 2019

	Investment	Expected Yield ²	Average Credit Quality	Weighted Avg Maturity	
BCPL-Managed Public Bond Portfolio	\$ 468,145,202	3.83%	Aa1	14.84	Yrs
Benchmark - S&P Taxable Municipal Bond Index ¹		3.34%	Aa3	14.79	Yrs
BCPL Absolute Yield Relative to Benchmark		0.49%	++	0.05	Yrs
Adjustment for Better Credit Quality Compared to Benchmark ³		+ 0.24%			
Adjustment for Shorter Maturity Compared to Benchmark ⁴		+ 0.00%			
BCPL Risk-Adjusted Yield Relative to Benchmark		0.73%			
Impact on Annual Distribution to Beneficiaries	\$ 468,145,202 x	0.73%	= \$	3,438,277	

Notes:

¹ There is no benchmark that is a perfect match to public bond portfolio held by BCPL, which is comprised of bonds issued only by the State of Wisconsin and Wisconsin municipalities and school districts. The closest readily available benchmark is the S&P Taxable Municipal Bond Index, which includes bonds from all 50 states plus U.S. territories. However, the muni bonds that comprise this benchmark have a lower credit quality than the bonds held in the BCPL portfolio. Therefore, adjustments to the yield differential need to be made when comparing the portfolio to the benchmark. This adjustment is detailed in note 3.

² Also called yield-to-worst, the 'Expected Yield' is equal to the lower of the yield to the call date and yield to the maturity date for each investment in the portfolio. The yield to the call date and the yield to the maturity date will be different for any security that was purchased at a price higher or lower than the bond par value. The Expected Yield of the portfolio is the weighted average yield to the redemption date for each bond, and assumes that all bonds will be redeemed at their earliest possible date, when it is in their best interest of the issuer given current market interest rates.

³ Credit Quality Adjustment - All else equal, a portfolio with lower credit quality requires a higher yield because the investor assumes a higher level of default risk. Therefore, when comparing portfolios with different credit scores, an adjustment is made to increase the relative yield for the portfolio with the higher credit quality. The adjustment necessary in this case is for 2 notches in credit score, or 2/3 of the yield difference between the AA-rated and A-Rated S&P Taxable Bond Funds.

⁴ Maturity Adjustment - None needed because both portfolios have similar average maturities.

**Investment Transaction Report
May 7, 2019**

Transactions made during April 2019 include:

Bond Purchases None

Bond Sales None

Public Equity Purchases Staff made a month-end rebalancing trade of approximately \$1 million. The total value of public equity ETFs is now approximately \$56.5 million, or 5% of the Common School Fund (CSF).



BCPL Public Bond Portfolio

As of 04/30/2019

<u>Description</u>	<u>Moody's Rating</u>	<u>S&P Rating</u>	<u>Weight</u>	<u>Expected Yield</u>	<u>Yield to Maturity at Cost</u>	<u>Modified Duration (years)</u>	<u>Cost Basis</u>	<u>Estimated Current Value</u>	<u>Estimated Unrealized Gain (Loss)</u>	<u>Annual Income</u>
Treasury and Agency Securities	Aaa	AA+	55.7%	3.59%	3.60%	11.84	258,555,704	255,520,488	(3,035,216)	9,281,826
Wisconsin and State Agency	Aa2	AA-	23.9%	4.18%	4.22%	10.30	107,015,511	109,695,770	2,680,259	4,643,133
Municipal/School District	Aa3	AA-	20.4%	4.10%	4.13%	9.41	91,547,456	93,834,823	2,287,367	3,876,193
	Aa1	AA	100.0%	3.84%	3.85%	10.98	457,118,671	459,051,081	1,932,410	17,801,153



BCPL Public Equity Portfolio

As of 04/30/2019

Symbol	Description	Quantity	Avg Cost	Cost Basis	Current Price	Current Value	Weight	Unrealized Gain (Loss)	Percent Gain (Loss)	Current Yield	Projected Annual Dividends
Domestic Equities											
VTI	Vanguard Total Stock Market ETF	89,766	135.57	12,169,631	150.390	13,499,909	24.3%	1,330,278	10.9%	1.9%	258,526
VYM	Vanguard High Dividend Yield ETF	93,852	82.48	7,740,781	87.640	8,225,189	14.8%	484,408	6.3%	3.1%	258,093
VIG	Vanguard Dividend Appreciation ETF	25,583	102.13	2,612,897	113.720	2,909,299	5.2%	296,402	11.3%	1.8%	53,724
VNQ	Vanguard REIT ETF	30,759	77.31	2,378,050	86.770	2,668,958	4.8%	290,909	12.2%	4.3%	114,731
VXF	Vanguard Extended Market	4,394	114.81	504,484	119.600	525,522	0.9%	21,039	4.2%	1.0%	5,493
		244,354		25,405,842		27,828,878	50.1%	2,423,035	9.5%	2.5%	690,567
Global Equities											
VEU	Vanguard FTSE All World ex-US ETF	258,518	50.02	12,930,005	51.580	13,334,358	24.0%	404,353	3.1%	3.0%	405,873
VYMI	Vanguard International High Dividend ETF	131,794	61.30	8,078,705	62.590	8,248,986	14.9%	170,281	2.1%	4.3%	351,398
VIGI	Vanguard International Div Appreciation ET	42,956	61.57	2,644,862	66.690	2,864,736	5.2%	219,874	8.3%	1.5%	44,245
VNQI	Vanguard Global ex-US Real Estate ETF	46,499	56.61	2,632,440	58.500	2,720,192	4.9%	87,752	3.3%	4.0%	108,343
SCZ	Ishares MSCI EAFE Small Cap	4,372	57.17	249,939	59.310	259,303	0.5%	9,364	3.7%	2.7%	6,989
EEMS	Ishares MSCI Emerging Mkt Small Cap	5,562	44.87	249,546	45.110	250,902	0.5%	1,356	0.5%	2.8%	6,908
		489,701		26,785,498		27,678,477	49.9%	892,979	3.3%	3.3%	923,754
		734,055		52,191,340		55,507,355	100.0%	3,316,015	6.4%	2.9%	1,614,321