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Jonathan Barry, *Executive Secretary*

AGENDA

June 18, 2019
2:00 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 - June 4, 2019 (Attachment)
- 3) Approve Loans (Attachment)

Old Business: None

New Business: None

Routine Business:

- 4) Chief Investment Officer's Report (Attachment)
- 5) Executive Secretary's Report
- 6) Board Chair's Report
- 7) Future Agenda Items
- 8) Adjourn

AUDIO ACCESS INFORMATION

Toll Free Number: **(888) 291-0079**
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**BOARD MEETING
JUNE 18, 2019**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the June 4, 2019, board meeting.

Board Meeting Minutes
June 4, 2019

Present in person were:

- | | |
|---|--|
| Sarah Godlewski, Board Chair | State Treasurer |
| Jonathan Barry, Executive Secretary | Board of Commissioners of Public Lands |
| Tom German, Deputy Secretary | Board of Commissioners of Public Lands |
| Richard Sneider, Chief Investment Officer | Board of Commissioners of Public Lands |
| John Schwarzmann, Forest Supervisor | Board of Commissioners of Public Lands |
| Micah Zeitler, Real Estate Specialist | Board of Commissioners of Public Lands |
| Kevin Burns, Senior Forester | Board of Commissioners of Public Lands |

Present via teleconference were:

- | | |
|--------------------------------|--------------------|
| Josh Kaul, Commissioner | Attorney General |
| Doug La Follette, Commissioner | Secretary of State |

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 2:01 p.m.

ITEM 2. APPROVE MINUTES - MAY 20, 2019

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

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. UPDATE ON UNCLAIMED PROPERTY PROGRAM REVIEW

Audits of Unclaimed Property Program and Third-Party Audits

Board Chair Godlewski reported that she recently met with Secretary Barca at the Department of Revenue to discuss auditing the unclaimed property program and, also, conducting third-party audits. Executive Secretary Barry and Deputy Secretary German also met with Secretary Barca. The meetings were productive, and progress was made. Staff will continue to provide updates to the Board.

Board's Fiduciary Responsibilities

Staff will meet with Charlette Gibson at the Department of Justice to discuss the Board's fiduciary responsibilities and report back to the Board.

ITEM 4. RATIFY ADJUSTMENTS TO LOAN PROGRAM INTEREST RATES

MOTION: Commissioner La Follette moved to ratify the loan program interest rate adjustments; Board Chair Godlewski seconded the motion.

DISCUSSION: Staff reported that interest rates were adjusted in response to current market conditions. The Executive Secretary in consultation with the Board Chair authorized the changes. The Board had previously authorized the Executive Secretary in consultation with the Board Chair to adjust loan interest rates up to 1% in between board meetings.

VOTE: The motion passed 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands ratifies the changes in BCPL State Trust Fund Loan Program, with annual interest rates to be set at 3.75% for 2-year loans; 3.75% for 3-5 year loans; 3.75% % for 6-10 year loans; and 4.00% for 11-20 year loans.

ITEM 5. DISCUSS AND VOTE ON STAFF ATTENDANCE AT WESTERN STATES LAND COMMISSIONERS ASSOCIATION 2019 SUMMER CONFERENCE IN WHITEFISH, MONTANA, JULY 28 - AUGUST 1

Executive Secretary Barry requested Board approval for three staff to attend the conference.

MOTION: Commissioner La Follette moved to approve that three staff attend the conference; Commissioner Kaul seconded the motion.

DISCUSSION: Staff attending include the agency's accountant, one senior forester, and the Deputy Secretary. Staff were chosen based on their roles and responsibilities. Topics to be covered at the conference include changes to protocols by the Government Accounting Standards Board that will likely impact Trust Fund accounting methods in addition to best practices in timber management. The conference is also an opportunity for staff to network with and learn from other trust land and trust asset managers. To reduce costs, staff will be sharing lodging at an off-site location that is within walking distance to the conference.

VOTE: The motion passed 3-0.

ITEM 6. PROPOSED LAND BANK PURCHASE - CONNOR/WTA PROPERTY FOREST COUNTY (P1902-NEWALD)

MOTION: Commissioner La Follette moved to approve the property purchase; Board Chair Godlewski seconded the motion.

DISCUSSION: Executive Secretary Barry explained that the proposed purchase includes an 80-acre parcel in Forest County. In addition to a professional appraisal, staff also evaluated the value of the standing timber on the parcel. Based on the appraised property and timber values, an internal rate of return was estimated to be 4.65%. Staff recommend that the Board approve the purchase at \$160,000 rather than \$168,000 because of easements that were not noted in the initial appraisal. Staff ordered a second review appraisal, which estimated the easements would devalue the property by as much as 5% or \$8,000.

AMENDED MOTION: Board Chair Godlewski moved to amend the purchase price not to exceed \$160,000; Commissioner Kaul seconded the motion.

DISCUSSION: Staff noted that the motion gives the Executive Secretary the authority to purchase the property at a price not greater than \$160,000.

VOTE: The motion passed 3-0.

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

DISCUSSION: The Board and staff discussed negotiating a fair price for the property based on these easements.

VOTE: The motion passed 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands approves the purchase of the Property at a price not to exceed One Hundred Sixty Thousand Dollars (\$160,000) in accordance with Chapter 24 of the Wisconsin Statutes on such other terms and conditions as the Executive Secretary determines to be reasonable and necessary. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transaction.

ITEM 7. PROPOSED LAND BANK SALE - WI DEPARTMENT OF TRANSPORTATION, OCONTO COUNTY (S1901 - OCONTO RIVER)

MOTION: Commissioner La Follette moved to approve the property sale; Board Chair Godlewski seconded the motion.

DISCUSSION: The Board's real estate specialist explained the Trust Land parcel was the last remaining property owned by the Board in Oconto County.

VOTE: The motion passed 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands approves the sale of the Oconto River parcel to the Wisconsin Department of Transportation at the price of Four Thousand Two Hundred Dollars (\$4,200) in accordance with Chapter 24 of the Wisconsin Statutes on such terms and conditions as the Executive Secretary determines to be reasonable and necessary. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transaction.

ITEM 8. REPORT AND DISCUSSION OF DEER PREDATION ON SCHOOL TRUST LANDS AND IMPACT ON TIMBER REVENUE

The Board's forest supervisor reported that the regeneration failure of many valuable tree species has been occurring over the past 30 years due to deer browsing. The tree species have been replaced by those that are not as valuable and, in some, cases not replaced at all. In the past, staff have taken steps to try and mitigate deer browse problems, but they have proven to be time consuming, expensive, and limited in effectiveness. Staff would like to apply to the Department of Natural Resources for antlerless deer harvest tags for a limited number of Trust Land properties. The goal would be to reduce the deer population in specific areas, rather than on a large scale, to the point where tree regeneration outpaces the deer browsing. Staff will prepare an in-depth white paper examining the issue and offering potential solutions. The report will be shared with the Board at a future meeting, and staff would then ask for the Board's approval to move forward with a proposed plan.

ITEM 9. CHIEF INVESTMENT OFFICER'S REPORT

Staff purchased public equity ETFs in response to market conditions.

ITEM 10. EXECUTIVE SECRETARY'S REPORT

Nothing to report.

ITEM 11. BOARD CHAIR'S REPORT

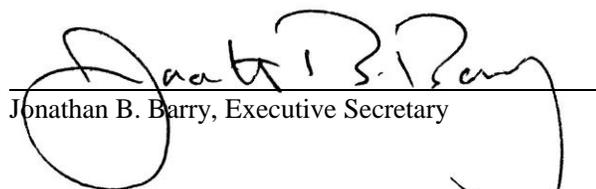
Board Chair Godlewski said that she held a strategy session with staff and priorities for 2020 were established. A report will be provided to the Board when complete.

ITEM 12. FUTURE AGENDA ITEMS

None.

ITEM 13. ADJOURN

Commissioner La Follette moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 3:31 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/2019/2019-06-04_BoardMtgRecording.mp3

**BOARD MEETING
JUNE 18, 2019**

**AGENDA ITEM 3
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Delavan Walworth County Application #: 02019137 Purpose: Interim financing for fire station construction	Town Rate: 4.00% Term: 2 years	General Obligation	\$5,000,000.00
2. Honey Lake Pro & Rehab Dist. Walworth County Application #: 02019136 Purpose: Finance dam repair and maintenance	Lake District Rate: 3.75% Term: 5 years	General Obligation	\$100,000.00
3. Mishicot Manitowoc County Application #: 02019138 Purpose: Finance roadwork	Village Rate: 3.75% Term: 10 years	General Obligation	\$1,400,000.00
TOTAL			\$6,500,000.00

**BOARD MEETING
JUNE 18, 2019**

**AGENDA ITEM 4
CHIEF INVESTMENT OFFICER'S REPORT - MAY**

During May, staff took advantage of a drop in public equity markets by acquiring ETF shares at relatively attractive prices. Domestic equities have since rebounded nearly 6% during the first two weeks of June, and the staff outlook on public equity prices has returned to one of caution.

During the last ten days in May, the benchmark 10-year Treasury fell rapidly to a 20-month low of 2.07%. This change in market interest rates has had a significant impact on the value of our bond portfolio. Since the benchmark hit a high near 3.25% on November 8, the value of our managed bond portfolio has swung from \$22.5 million in unrealized losses to \$8.3 million in unrealized gains (bond prices go up when interest rates decrease). Of course, this \$31 million increase in bond values has no immediate impact on our beneficiaries, as we have no requirement to ever sell an asset.

But the decline in rates since November did allow staff to realign the bond portfolio by selling many of our lower-yielding bonds. These sales have had the effect of increasing the yield on our remaining bond portfolio from 3.75% to 3.90%. While this increase may not seem noteworthy, small changes can make a big difference to our beneficiaries. On a portfolio of \$1.2 billion, each 1/100 of 1% change in average yield means an additional \$120,000 in annual distribution.

The BCPL-managed portfolios are now holding over \$200 million in cash that is invested in the State Investment Fund (SIF), which is paying near 2.5%. Because we are getting a good return in the SIF, the opportunity cost for holding cash is reasonable. From a portfolio management perspective, cash allows staff to acquire long-term risk assets at a lower price upon the occurrence of a market downturn. But that does not mean we should stand still and wait for a recession.

The BCPL Investment Committee has met with several real estate fund managers and is analyzing opportunities in the real estate asset class. The Committee believes that real estate will be an increasingly important asset class because real estate will maintain or increase distributable income to current beneficiaries, while also providing long-term capital gains to benefit future generations. Real estate investments will have the overall impact of increasing the expected long-term investment returns on the Trust Funds while decreasing portfolio risk because of a low correlation to public equities and bonds.

The Committee is considering several open-ended real estate funds offered by industry-leading investment firms. These private investment funds provide greater portfolio stability compared to public-traded REITS, but also include the ability to withdraw capital on a monthly or quarterly basis, if needed.

These funds are geographically diversified across the United States, and invest in multifamily, office, industrial and warehouse, and retail properties. Specific properties held within each fund are known at the time of investment, and the current portfolio of each fund will be one of the criteria utilized by the Investment Committee.

Other criteria will be the prudent use of leverage by the fund manager. Nearly all commingled real estate funds (where BCPL would not be the sole investor), borrow money to increase total fund assets and improve investment returns. Both the amount of leverage that the fund currently has in place, along with legal and contractual limits on the future use of leverage will be analyzed prior to any BCPL commitment.

Attachments

1. Investment Transaction Report
2. Month-End Portfolio Report - Public Bonds
3. Month-End Portfolio Report - Public Equities

**Investment Transaction Report
As of June 14, 2019**

Transactions since the most recent report dated May 31, 2019 include:

Bond Purchases

None

Bond Sales

Staff sold just under \$58.5 million in bonds during May and early June. The average yield on the sold bonds was 3.38%, and the primary incentive for these sales was the ability to reinvest these funds at higher long-term expected returns. The sale also had the effect of raising the yield on our remaining public bond portfolio from 3.83% to 3.90%.

These sales provided long-term capital gains of about \$13,000. The Investment Policy requires that long-term gains are added to the principal of the funds.

Public Equity Purchases

Staff acquired an additional \$2 million in public equity ETFs in regular purchases, along with a month-end rebalance transaction totaling \$1 million. Public equities now total approximately \$63 million or 6% of the Common School Fund (CSF).



BCPL Public Bond Portfolio

As of 05/31/2019

<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+	55.1%	3.58%	3.58%	11.88	253,555,704	253,482,620	(73,084)	9,070,826
Wisconsin and State Agency	Aa2	AA-	24.2%	4.18%	4.22%	10.48	106,908,150	111,108,073	4,199,923	4,643,133
Municipal/School District	Aa3	A+	20.7%	4.09%	4.13%	9.43	91,546,694	95,271,493	3,724,799	3,876,193
	Aa1	AA	100.0%	3.83%	3.85%	11.03	452,010,548	459,862,186	7,851,638	17,590,153



BCPL Public Equity Portfolio

As of 05/31/2019

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	140.690	12,629,179	21.2%	459,548	3.8%	2.0%	258,526
VYM	Vanguard High Dividend Yield ETF	106,527	82.74	8,814,486	82.530	8,791,673	14.8%	(22,813)	-0.3%	3.3%	292,949
VIG	Vanguard Dividend Appreciation ETF	28,841	103.05	2,972,029	108.450	3,127,806	5.3%	155,778	5.2%	1.9%	60,566
VNQ	Vanguard REIT ETF	34,390	78.29	2,692,266	86.890	2,988,147	5.0%	295,881	11.0%	4.0%	118,302
VXF	Vanguard Extended Market	19,554	114.72	2,243,287	111.320	2,176,751	3.7%	(66,536)	-3.0%	1.1%	24,443
		<u>279,078</u>		<u>28,891,699</u>		<u>29,713,557</u>	<u>49.9%</u>	<u>821,858</u>	<u>2.8%</u>	<u>2.5%</u>	<u>754,786</u>
Global Equities											
VEU	Vanguard FTSE All World ex-US ETF	259,123	50.01	12,960,023	48.720	12,624,473	21.2%	(335,550)	-2.6%	3.2%	409,414
VYMI	Vanguard International High Dividend ETF	149,579	61.16	9,147,731	59.250	8,862,556	14.9%	(285,175)	-3.1%	4.5%	400,872
VIGI	Vanguard International Div Appreciation ET	48,431	61.94	2,999,612	64.400	3,118,956	5.2%	119,344	4.0%	1.6%	50,368
VNQI	Vanguard Global ex-US Real Estate ETF	51,949	56.72	2,946,793	57.460	2,984,990	5.0%	38,196	1.3%	4.1%	121,041
EEMS	Ishares MSCI Emerging Mkt Small Cap	25,706	43.52	1,118,696	42.930	1,103,559	1.9%	(15,138)	-1.4%	2.9%	31,875
SCZ	Ishares MSCI EAFE Small Cap	19,644	56.98	1,119,409	55.950	1,099,082	1.8%	(20,327)	-1.8%	2.9%	31,823
		<u>554,432</u>		<u>30,292,264</u>		<u>29,793,615</u>	<u>50.1%</u>	<u>(498,650)</u>	<u>-1.6%</u>	<u>3.5%</u>	<u>1,045,394</u>
		<u>833,510</u>		<u>59,183,963</u>		<u>59,507,171</u>	<u>100.0%</u>	<u>323,208</u>	<u>0.5%</u>	<u>3.0%</u>	<u>1,800,180</u>