BOARD OF COMMISSIONERS OF PUBLIC LANDS 1848

Managing Wisconsin's trust assets for public education

Douglas La Follette, *Secretary of State*
Sarah Godlewski, *State Treasurer*
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Jonathan Barry, *Executive Secretary*

AGENDA

November 12th, 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 – October 15th, 2019 (Attachment)

3) Approve Loans (Attachment)

Old Business:

4) Review, Discussion and potential action on amendments to BCPL's Investment Plan and Statements. State Treasurer Memo and LRB Memo.

5) BCPL chair's memos: 2020-2022 Goals and Priorities, Executive Secretary position description.

6) Adjournment into closed session to discuss individual candidate for position of Executive Secretary

7) Potential action on Executive Secretary position upon resuming open session

New Business: None

Routine Business:

8) Chief Investment Officer's Report (Attachment)

9) Executive Secretary's Report

10) Board Chair's Report

11) Future Agenda Items

12) Adjourn

AUDIO ACCESS INFORMATION

Toll Free Number: **(888) 291-0079**
Passcode: **6363690#**

Board Meeting Minutes
October 15th, 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
Mike, Krueger, IT Manager	Board of Commissioners of Public Lands
Richard Sneider, Chief Investment Officer	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 2:01 p.m.

ITEM 2. APPROVE MINUTES – OCTOBER 1st, 2019

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

DISCUSSION: No discussion.

VOTE: The motion passed 2-0.

ITEM 3. APPROVE LOANS

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

DISCUSSION: Mr. Sneider commented that the loan for Cedar Grove for park improvements included a sports complex.

VOTE: The motion passed 2-0.

Municipality	Municipal Type	Loan Type	Loan Amount
1. Cedar Grove Sheboygan County Application #: 02020041 Purpose: Finance park improvements	Village Rate: 3.75% Term: 20 years	General Obligation	$2,000,000.00
2. Garfield Jackson County Application #: 02020039 Purpose: Finance roadwork	Town Rate: 3.25% Term: 2 years	General Obligation	$100,000.00
3. Mount Morris Waushara County Application #: 02020038 Purpose: Finance renovation of community center	Town Rate: 3.75% Term: 20 years	General Obligation	$250,000.00

4.	Sherwood Clark County Application #: 02020040 Purpose: Finance purchase of grader	Town Rate: 3.25% Term: 10 years	General Obligation	$260,000.00
5.	Whiting Portage County Application #: 02020042 Purpose: Interim financing for water project	Village Rate: 3.25% Term: 5 years	General Obligation	$260,000.00
6.	Whiting Portage County Application #: 02020043 Purpose: Interim financing for sewer project	Village Rate: 3.25% Term: 5 years	General Obligation	$173,000.00
		TOTAL		**$3,043,000.00**

ITEM 4. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider reported that the current fixed income portfolio was performing very well, achieving a yield that is 1.4% greater than benchmark at the end of the 3rd quarter. Mr. Sneider pointed out that the monthly Investment Transaction Report has been reformatted to better reflect the Investment Plan. Board Chairman Godlewski and Commissioner Kaul both indicated their approval of the new format.

Outstanding commitments to the real estate asset class totaling $90 million were discussed. Mr. Sneider indicted that the document review process has stalled. Hiring of outside counsel to evaluate and make recommendations regarding the investment documentation was discussed, and it was determined that a meeting between staff and the Attorney General regarding this matter should be scheduled in the near future.

ITEM 5. EXECUTIVE SECRETARY'S REPORT

Secretary Barry announced his intention to retire from his position as Executive Secretary on January 3rd, 2020. Having served just over four years he expressed his appreciation for the opportunity to have served with this 'most worthwhile' agency and with such excellent staff. He briefly described the process should the Board choose to promote a candidate internally: that with his date of retirement set, the Board could designate his successor and, if that person were from within the agency, the process could be immediately started to fill the position which would be vacated. He expressed his hope that this could be done by the time of his retirement if the Board were to start right away and if there were no substantive position description changes initiated. Secretary Barry pointed out that both the positions of Deputy Secretary and Chief Investment Officer had been fully evaluated in 2018, at his request, by the Division of Personnel Management (DPM) with the result being an upgrade to 81-01 status for both positions and a new updated position descriptions drafted and adopted by DPM and the DOA Secretary. Secretary Barry expressed his confidence that these two positions were now appropriately constituted, their rank established and future compensation or new hire compensation more responsive to market conditions.

ITEM 6. BOARD CHAIR'S REPORT

Board Chairman Godlewski announced several changes to upcoming board meetings. The November 5th meeting will be cancelled. The November 12th meeting will be in person at BCPL to discuss the updated Investment Plan and Statements (IPS).

ITEM 7. FUTURE AGENDA ITEMS

Board Chairman Godlewski asked to add an update on legal review options for Real Estate Transactions (3rd party

evaluations) and expressed her wish that Tom and Jonathan, be prepared to provide an update following their meeting with Commissioner Kaul.
Board Chairman Godlewski further would like to discuss a replacement for the Executive Secretary at the next board meeting or sooner. She stated that there would likely be a need for a closed session meeting to discuss the person(s) and position. Following that, in an open meeting, she would like to discuss 3 items: review of position description of the current secretary, high level agency goals and possible promotion from within (possibly in closed session exempt 19.852).

ITEM 8. ADJOURN

Board Chair Godlewski moved to adjourn the meeting; Commissioner Kaul seconded the motion.

The motion passed 2-0; the meeting adjourned at 2:34 p.m.

Jonathan B. Barry, Executive Secretary

Link to audio recording: https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2019/2019-10-15_BoardMtgRecording.mp3

BOARD MEETING
NOVEMBER 12, 2019

AGENDA ITEM 3
APPROVE LOANS

Municipality	Municipal Type	Loan Type	Loan Amount
1. Marshfield Marathon and Wood Counties Application #: 02020044 Purpose: Finance TID #7 rail spur project	City Rate: 3.25% Term: 7 years	General Obligation	$750,000.00
2. Sparta Monroe County Application #: 02020045 Purpose: Finance roadwork	Town Rate: 3.25% Term: 2 years	General Obligation	$75,000.00
3. Gordon Douglas County Application #: 02020046 Purpose: Finance the purchase of grader	Town Rate: 3.25% Term: 5 years	General Obligation	$284,080.00
4. Sun Prairie Dane County Application #: 02020047 Purpose: Finance land purchase and improvements	City Rate: 3.25% Term: 10 years	General Obligation	$650,000.00
5. Delafield Waukesha County Application #: 02020048 Purpose: Finance truck purchase	Town Rate: 3.25% Term: 7 years	General Obligation	$250,000.00
6. Green Lake Sanitary District Green Lake County Application #: 02020050 Purpose: Finance extension of sewer main	Sanitary District Rate: 3.25% Term: 10 years	General Obligation	$396,988.00
7. Sand Lake Burnett County Application #: 02020051 Purpose: Finance purchase of skidsteer	Town Rate: 3.25% Term: 5 years	General Obligation	$20,000.00
8. Sheboygan Falls Sheboygan County Application #: 02020052 Purpose: Finance TID #6 Development Incentive	City Rate: 3.75% Term: 20 years	General Obligation	$1,375,000.00

	Municipality	Municipal Type	Loan Type	Loan Amount
9.	Scott Brown County Application #: 02020053 Purpose: Finance infrastructure and road projects	Town Rate: 3.75% Term: 20 years	General Obligation	$570,000.00
10.	Scott Brown County Application #: 02020054 Purpose: Refinance BCPL Loan #2018156	Town Rate: 3.75% Term: 19 years	General Obligation	$691,606.14
11.	Fox Lake Dodge County Application #: 02020055 Purpose: Finance economic development projects	City Rate: 3.75% Term: 20 years	General Obligation	$800,000.00
12.	Fox Lake Dodge County Application #: 02020056 Purpose: Finance roadwork	City Rate: 3.25% Term: 10 years	General Obligation	$150,000.00
13.	Tony Rusk County Application #: 02020061 Purpose: Refinance Water Utility Bank Loan	Village Rate: 3.25% Term: 10 years	General Obligation	$35,000.00
14.	Tony Rusk County Application #: 02020062 Purpose: Finance roadwork	Village Rate: 3.25% Term: 10 years	General Obligation	$30,000.00
15.	Tony Rusk County Application #: 02020063 Purpose: Finance senior center project	Village Rate: 3.25% Term: 10 years	General Obligation	$30,000.00
16.	Tony Rusk County Application #: 02020064 Purpose: Refinance Water Utility Bank Loan	Village Rate: 5.00% Term: 15 years	Utility Revenue	$125,000.00
17.	Cudahy Milwaukee County Application #: 02020065 Purpose: Finance purchase of capital equipment and vehicles	City Rate: 3.25% Term: 2 years	General Obligation	$410,000.00

Municipality		Municipal Type	Loan Type	Loan Amount
18.	Lac La Belle Waukesha County Application #: 02020066 Purpose: Finance purchase of boat	Village Rate: 3.25% Term: 10 years	General Obligation	$36,000.00
19.	Montreal Iron County Application #: 02020067 Purpose: Finance water infrastrucuture project	City Rate: 3.25% Term: 10 years	General Obligation	$130,000.00
20.	Lawrence Brown County Application #: 02020068 Purpose: Finance infrastructure construction	Town Rate: 3.25% Term: 10 years	General Obligation	$2,500,000.00
		TOTAL		**$9,308,674.14**

State of Wisconsin
Board of Commissioners of Public Lands
School Trust Fund Investment Policy Statements

An Investment Management Framework for State of Wisconsin School Trust Funds, including the Common School Fund, the Normal School Fund, the Agricultural College fund, and the University Fund.

As amended at the 11/12/2019 BCPL Board Meeting

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Mission Statement, Authority, and Purpose

The Board of Commissioners of Public Lands (BCPL) is the oldest state agency and the only agency created within the State Constitution. The forefathers of this State placed a high value on public education, and created an independent board to oversee the valuable federal land grants through a permanent trust created to benefit Wisconsin schoolchildren. Members of the Board have a fiduciary duty and must administer the trust solely in the interests of the beneficiaries.

The Wisconsin constitution includes language forming the BCPL, with membership comprised of three statewide elected constitutional officers: the Secretary of State, State Treasurer, and Attorney General. The BCPL is entrusted with the authority to manage the sale of those lands and resultant monies to benefit the education of current and future generations. It is widely believed that the School Trust Funds remain relevant today because the management of School Trust assets was somewhat protected from the political and budgetary pressures found in the legislative and executive branches of state governance.

The school trust lands and the proceeds from their sale, plus additional monies as directed by the State Constitution, have been placed into four distinct state trust funds (the School Trust Funds): the Common School Fund, Normal School Fund, University Fund, and Agricultural College Fund. The beneficiaries of the Common School Fund are K-12 public schools located in Wisconsin. Earnings from the investment of Common School Fund principal are currently directed to provide the sole state aid for the purchase of public school library media and resources. The University of Wisconsin is the beneficiary of the other three School Trust Funds managed by the BCPL.

Mission Statement

The mission of the BCPL is to manage the assets of the School Trust Funds in a manner that maintains significant, stable, and sustainable distributions to fund beneficiaries, and to manage all assets and programs entrusted to the Board in a prudent and professional manner, in accordance with the Wisconsin Constitution and applicable state law.

General Authority

The Wisconsin Constitution (Article X) entrusts the management and sale of school trust lands and the investment of funds arising therefrom to the BCPL. As most of the school trust lands are remnants of federal land grants, there are some federal statutes that effect such lands and resulting land sale proceeds. Chapter 24 of the Wisconsin Statutes governs school trust lands and trust funds managed by BCPL. Wisconsin Statutes Chapter 112 includes both the Uniform Fiduciaries Act and the Uniform Prudent Management of Institutional Funds Act, which govern the management of the School Trust Funds.

Investment Authority

The Wisconsin Constitution states that "…The Commissioners shall…invest all moneys arising from the sale of such lands …in such manner as the legislature shall provide...".[1] This provision has been interpreted by the Wisconsin Supreme Court to mean that the State Legislature has the authority to specify the universe of investments available to the BCPL, but may not direct the BCPL to make any particular investment.

[1] Article X, Section 8 - Wisconsin Constitution

Prior to August 2015, the State Legislature limited the investment authority of the BCPL to certain fixed-income securities.

The enactment of Wisconsin Act 60 in August 2015 greatly expanded the investment authority available to the BCPL for management of the School Trust Funds. This statute included language replacing the previous list of authorized investments with the Prudent Investor Standard: "The board shall manage and invest moneys belonging to the trust funds in good faith and with the care an ordinary prudent person in a like position would exercise under similar circumstances, in accordance with the *Uniform Prudent Management of Institutional Funds Act*."[2]

Purpose of This Policy

This Investment Policy Statement (Policy) governs the investment of assets for each of the four School Trust Funds of the State of Wisconsin. Prior statutes provided a de facto investment policy for the BCPL, and removal of these constraints allows the transition of BCPL asset management into industry best practices starting with the creation of this Policy.

This policy is established to provide the framework for management of School Trust Fund assets and sets forth the investment objectives, philosophy, guidelines, and practices for the BCPL, staff, external investment managers (managers), and consultants. The Policy is intended to provide parameters to ensure long-term prudence and care in execution of the investment program, while allowing the flexibility to capture investment opportunities made available to staff and managers. The Policy shall also provide the standards by which the BCPL can evaluate staff, managers, investment consultants, custodians and other service providers.

No investment or action pursuant to an investment may be taken unless permitted by this Policy or by action of the BCPL, and any exceptions to this policy must be approved by the BCPL.

This Policy is supplemented by agency operating procedures and policies, along with language contained within contractual agreements between the BCPL and investment managers and other service providers.

Formal Review Schedule

The BCPL acknowledges that investments are subject to short-term volatility, but that maintaining a long-term outlook will provide better results for the investment of the permanent School Trust Funds. This long-term perspective will constrain impulsive and potentially harmful decision-making in reaction to short term market fluctuations and conditions. In order to preserve this long-term view, the BCPL has adopted the following formal review schedule:

[2] Chapter 24.61(2)(a) and 112.11(3) - Wisconsin Statutes

Formal Review Agenda Item	Formal Review Schedule
Investment Policy Statement	At least every two years
Investment Committee Membership/Guidelines	At least every two years
Asset Allocation Policy	At least annually
Total Fund Performance	At least quarterly
Asset Class Performance	At least quarterly
Investment Manager Performance	At least quarterly

Description of the School Trust Funds

Common School Fund

The Common School Fund is the largest trust fund managed by BCPL, and was established in the State of Wisconsin Constitution in 1848. This Fund was originally endowed with a federal land grant of the 16th Section of each Wisconsin township (nearly one million acres in total) for the purposes of education. Another grant of 500,000 acres, originally dedicated to 'internal improvements', was added to the Common School Fund due to a successful petition to the United States Congress by the forefathers of this state. Except for about 6,100 acres that remain in trust, all of the school trust lands from these original grants were sold to establish the Fund.

Principal has continued to grow because the Wisconsin Constitution provides that the Fund receive all monies and the clear proceeds of all fines and forfeitures (including unclaimed and escheated property) that accrue to the state.

Common School Fund Earnings are delivered in April (mid fiscal year) to the Department of Public Instruction, which then distributes the earnings as library aid to all public K-12 school districts in the state. These payments are currently directed to provide the sole state aid for the purchase of public school library media and resources. The Wisconsin Constitution provides each school district to receive a share of total distributable earnings based on the number of children aged 4 through 20 living in that district.

As of June 30, 2019, the Common School Fund had total (cost basis) financial assets of $1.1 billion invested in the following security types:

Common School Fund Assets	
Fixed Income	
Public Debt	
State/State Agency/Municipal Bonds	**$192,422,391**
U.S. Treasury/Agency Bonds	**183,565,134**
Private Debt	
BCPL State Trust Fund Loans	**426,824,498**
Other Private Debt	**25,116,802**
Equities and Alternatives	
Public Equities	
Domestic ETFs	**29,855,730**
Global ETFs	**31,326,402**
Private Equity and Alternatives	
Private Equity/Venture Capital	**8,974,486**
Cash	
State Investment Fund	**222,880,681**
Total	**$1,120,966,125**

Remaining land assets of the Common School Fund total 6,075 acres. The following categories are not mutually exclusive, meaning that a single parcel may be included in more than one category and the sum of acres within each category will not equal total acreage:

Common School Fund Acreage	
Productive Timberland	3,277
Non-Timbered (primarily wetlands)	1,018
Land with Management Impediments	1,827

The management impediment category includes lands that have no legal access, or where logging is not economically feasible because of low timber value, small tract size or parcel remoteness.

Normal School Fund

At the time of Wisconsin's statehood, there was only one "school fund" established in the state constitution for the support and maintenance of both common (public K-12) and normal schools (teacher colleges). From this single fund, whatever trust assets or income not needed for common schools was to be used for the normal schools. In the early days of statehood, the legislature was primarily concerned with funding of the common schools and allocated few resources to normal schools.

In 1850, Wisconsin received a federal grant of more than three million acres of land pursuant to the Swamp Land Act. The proceeds from the sale of these lands were to be used for the purpose of drainage and reclamation of "swamp and overflowed lands" *to the extent necessary*. By 1865, the Wisconsin legislature was convinced that the State needed only half of those swamp lands for drainage purposes. The other half of the land grant was directed by the Constitution to the school fund. The legislature made the additional finding that the common schools did not need additional funding at that time so these lands and resulting sales proceeds would be used to endow the Normal School Fund. One year later in 1866, Wisconsin established its first Normal School in Platteville.

Nearly all of these original swamp lands were sold in the 1800s. The scattered parcels that remained within the Trust were difficult to sell because the parcels had little monetary value and/or severe management impediments, including the lack of legal access. Many of these impediments continue to affect the marketability of these lands, and the Normal School Fund retains ownership of just under 70,000 acres today.

Over the years, the normal schools became state teacher colleges and then state universities that were eventually folded into the University of Wisconsin System (UW). The UW, as the successor in interest of the original normal schools, is now the beneficiary of the Normal School Fund. Additions to principal come from the proceeds of timber sales.

Earnings are distributed to the University of Wisconsin throughout each fiscal year, and are currently dedicated to fund scholarships for UW-Madison and UW-Extension students as well as programs at UW-Stevens Point.

As of June 30, 2019, the Normal School Fund had total (cost basis) financial assets of approximately $28.5 million invested in the following security types:

Normal School Fund Assets	
Fixed Income	
Public Debt	
State/State Agency/Municipal Bonds	**$5,840,993**
Private Debt	
BCPL State Trust Fund Loans	**16,847,330**
Cash	
State Investment Fund	**5,891,084**
Timber Sale Deposits	**(50,177)**
Total	**$28,529,230**

Remaining land assets of the Normal School Fund total 69,598 acres. The following categories are not mutually exclusive, meaning that a single parcel may be included in more than one category and the sum of acres within each category will not equal total acreage:

Normal School Fund Acreage	
Productive Timberland	27,970
Non-Timbered (primarily wetlands)	20,644
Land with Management Impediments	21,749

As with Common School Fund lands, the management impediment category includes parcels with no legal access, or where logging is not economically feasible.

University Fund

In both 1838 and 1854, Congress granted to the Territory of Wisconsin the equivalent of two townships, or 72 square miles of land, to be sold to support a university. Wisconsin sold nearly all these lands shortly after obtaining title, and made no provision for adding to this fund. For many years, the principal balance has remained static and invested only in fixed income securities. Interest earnings are distributed annually to the University of Wisconsin.

As of June 30, 2019, the University Fund had total financial assets of $234,130 invested as follows:

University Fund Assets	
Fixed Income	
State/State Agency/Municipal Bonds	**$30,331**
BCPL State Trust Fund Loans	**147,109**
State Investment Fund	**56,689**
Total	**$234,130**

Remaining land assets of the University Fund total 37 acres. The following categories are not mutually exclusive, meaning that a single parcel may be included in more than one category and the sum of acres within each category will not equal total acreage:

University Fund Acreage	
Productive Timberland	0
Non-Timbered (primarily wetlands)	30
Land with Management Impediments	3

Agricultural College Fund

The Agricultural College Fund was established with an 1862 act of Congress granting land to create a permanent endowment to support "colleges of agriculture and mechanical arts" in each state. The Morrill Act gave rise to land grant colleges across the nation by providing that each state was entitled to 30,000 acres of land for each member of Congress. Wisconsin had eight Congressional representatives at that time, so received title to 240,000 acres of land under this law. Wisconsin sold all these lands shortly after obtaining title, and made no provision for adding to this fund. The principal balance of the Agricultural College Fund remains fixed at the amount originally received for these lands, and the BCPL makes an annual distribution of earnings to the University of Wisconsin.

As of June 30, 2019, the Agricultural College Fund had total financial assets of $305,282 invested as follows:

Agricultural College Fund Assets	
Fixed Income	
State/State Agency/Municipal Bonds	**$59,400**
BCPL State Trust Fund Loans	**224,645**
State Investment Fund	**21,237**
Total	**$305,282**

Roles and Responsibilities

The BCPL

The Board of Commissioners of Public Lands is the primary body charged with overseeing investment activities relating to the Funds. The three elected members of the BCPL include the Secretary of State, State Treasurer, and State Attorney General. Together, the members elect one member as Board Chair to oversee meetings of the Board. Commissioners are fiduciaries subject to certain statutory and common law duties and standards, and must administer the trust solely in the interests of the beneficiaries.

The BCPL is responsible for the prudent investment of all assets and programs entrusted to the Board, in accordance with the Wisconsin Constitution and applicable federal and state laws. The BCPL is responsible for establishing and maintaining all policies and guidelines by which the Funds are managed, and by which the Executive Secretary and Investment Committee operate. The BCPL relies on the Executive Secretary, Investment Committee, agency staff, and managers to properly administer the Funds and implement strategies for the investment of Trust assets.

Executive Secretary and Agency Staff

The Board of Commissioners of Public Lands appoints an Executive Secretary to act on its behalf. The Executive Secretary has a primary responsibility to manage the school trust funds and assets under the control of the BCPL as provided by law. In addition to the Executive Secretary, agency staff includes the Deputy Secretary/Legal Counsel, Chief Investment Officer, Forest Supervisor, Senior Accountant/Financial Manager, and five fulltime staff.

Investment Committee

The Board of Commissioners of Public Lands hereby appoints the Board Chair or Board Member designated by the Board Chair, Executive Secretary, Deputy Secretary/Legal Counsel, Senior Accountant/Financial Manager and Chief Investment Officer to the BCPL Investment Committee. The Investment Committee has the responsibility for implementing BCPL policy, management of the investment program, selecting the custodian bank, investment managers and commitment amounts, and reporting to the BCPL regarding the performance of investment portfolios.

Investment Managers

Managers may be hired to provide specialized asset management capabilities, and will serve at the pleasure of the BCPL. Each manager will select, buy, and sell specific securities or investments within the parameters specified in their investment guidelines and in adherence to this Policy. Managers will construct and manage investment portfolios that are consistent with the investment philosophy and disciplines for which they were hired. Managers will provide performance reporting at intervals and in a format specified by the BCPL Investment Committee.

Custodian

A custodian bank shall be selected to safeguard Trust Fund financial assets. The custodian is responsible for collecting income and safely keeping all cash and securities, processing transactions, and providing accounting and investment reports to the Agency.

Conflicts of Interest

Commissioners, the Executive Secretary, Members of the Investment Committee, Managers, Consultants, and Custodians involved in the investment process will refrain from personal business activity that could conflict with the proper execution and management of the BCPL investment program, or that could impair their ability to make impartial recommendations and decisions. Potential conflicts of interest, or anything that might create an appearance of a conflict of interest, must be disclosed in writing to the Executive Secretary. Commissioners submit an Annual Statement of Economic Interest to the appropriate State of Wisconsin authorities and members of the Investment Committee are encouraged to do the same.

Adherence to CFA Institute Code of Ethics and Standards of Professional Conduct

The CFA Institute Code of Ethics and Standards of Professional Conduct and Asset Manager Code of Conduct comprise the current industry standards and best practices for the conduct of fiduciaries. These documents are attached as Addendum 1 to this policy. This investment policy hereby requires Commissioners, the Executive Secretary, Agency Staff, Managers, Consultants, and Custodians to adhere to these standards.

Investment Philosophy

In order to meet the investment objectives of BCPL-managed Trust Funds, the following principles have been adopted:

- Strategic asset allocation is a fiduciary duty and allocation across asset classes is the most important determinant of long-term total return and return variability.
- Diversification by asset class and within asset classes is a primary risk control element.
- Each trust or fund invested by the BCPL shall have a strategic asset allocation and investment strategy that is appropriate given its specific requirements for return, risk, time horizon, and liquidity.
- Capital markets exhibit periodic inefficiencies that may be exploited through shorter-term tactical shifts in asset allocations to increase expected investment performance. The amount of any tactical allocation shall be limited to ranges specified within the approved asset allocation.
- Over the long term, active management can add value at the asset class, sector, and security levels by exploiting market inefficiencies and their resulting valuation opportunities. Less efficient asset types and markets provide the best opportunities for active management.
- The cost of investment management is an important element of long-term investment returns, and costs are contained through lower-cost internal management, passive management approaches, external fee negotiations, and a focus on net performance.
- Fund and portfolio results are most appropriately measured against appropriate benchmarks. Evaluation of investment results should include analysis of both risk and return relative to the objectives and constraints of the managed funds. Peer comparisons are problematic due to differences in the objectives and constraints between the peer funds.
- The BCPL State Trust Fund Loan Program, a direct lending program to Wisconsin municipalities and school districts since 1871, provides an important strategic advantage to BCPL asset management with superior risk and return characteristics.
- Legacy land assets shall be managed to increase the quality and value of land holdings where possible, generate long-term capital gains through timber harvests utilizing industry-best

sustainable timber management standards, and improve management efficiencies through the rearrangement of land assets into larger blocks with the sale of excess parcels.

- The rate of growth in fund principal has declined to levels near the long-term expected rate of inflation. To maintain purchasing power for future generations, capital gains on investments held one year and longer shall be added to the principal of each School Trust Fund. Interest income, dividends, and short-term capital gains shall be distributed to beneficiaries as required by law and precedence.
- The transition from the legacy portfolios of fixed-income securities to new asset classes and allocations will require special considerations to meeting the expectations of beneficiaries, including the maintenance and stability of annual income distributions. The establishment of targeted annual distributions coupled with segregated smoothing accounts is required to ensure the stability of future distributions.
- BCPL shall make reasonable efforts to seek investment opportunities within the State of Wisconsin to the extent practicable and subject to BCPL's fiduciary duty to act in the sole interests of the beneficiaries.
- Transparency of investment strategy and processes is an important element in maintaining the confidence and trust of beneficiaries and the public. The BCPL shall strive to provide transparency whenever possible.

General Risk Objectives

The investment risk objective for the School Trust Funds is based on the following principles:

- An increase in risk shall be compensated through higher expected long-term portfolio returns.
- Risk can be mitigated through diversification of asset classes and investment approaches. Diversification takes advantage of the different responses to market, economic, and political conditions inherent within distinct asset classes. Diversification also limits portfolio exposure to individual sources of risk and reduces the variability of portfolio returns.
- The primary determinant of long-term investment performance is the strategic asset allocation.
- Capital markets exhibit periodic inefficiencies that may be exploited through shorter-term tactical shifts in asset allocations to increase expected investment performance. The amount of any tactical allocation shall be limited to ranges specified within the approved asset allocation.

The BCPL shall establish a long-term asset allocation policy for each fund that balances the return objective with the risk level that is appropriate for that fund. These policies provide for the appropriate level of diversification and allow for tactical allocations designed to take advantage of market inefficiencies. In determining the suitable risk levels, the BCPL has considered the purpose and characteristic of each fund; sources, amounts and timing of anticipated additions to fund principal; constitutional and statutory fund distribution requirements to beneficiaries; liquidity requirements; and general economic conditions.

General Constraints

The Prudent Investor Standard

Wisconsin Statutes Section 112.11 requires the BCPL to manage and invest moneys in accordance with the *Uniform Prudent Management of Institutional Funds Act,* which states:

112.11 (3) STANDARD OF CONDUCT IN MANAGING AND INVESTING AN INSTITUTIONAL FUND.

(a) Subject to the intent of a donor expressed in a gift instrument, an institution, in managing and investing an institutional fund, shall consider the charitable purposes of the institution and the purposes of the institutional fund.

(b) In addition to complying with the duty of loyalty imposed by law other than this section, each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

(c) In managing and investing an institutional fund, an institution:

1. May incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the institution, and the skills available to the institution.
2. Shall make a reasonable effort to verify facts relevant to the management and investment of the fund.

(d) An institution may pool 2 or more institutional funds for purposes of management and investment.

(e) Except as otherwise provided by a gift instrument, the following rules apply:

1. In managing and investing an institutional fund, the following factors, if relevant, shall be considered:
    a. General economic conditions.
    b. The possible effect of inflation or deflation.
    c. The expected tax consequences, if any, of investment decisions or strategies.
    d. The role that each investment or course of action plays within the overall investment portfolio of the fund.
    e. The expected total return from income and the appreciation of investments.
    f. Other resources of the institution.
    g. The needs of the institution and the fund to make distributions and to preserve capital.
    h. An asset's special relationship or special value, if any, to the charitable purposes of the institution.
2. Management and investment decisions about an individual asset shall not be made in isolation but rather in the context of the institutional fund's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.
3. Except as otherwise provided by law other than this section, an institution may invest in any kind of property or type of investment consistent with this section.
4. An institution shall diversify the investments of an institutional fund unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.
5. Within a reasonable time after receiving property, an institution shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in

order to bring the institutional fund into compliance with the purposes, terms, and distribution requirements of the institution as necessary to meet other circumstances of the institution and the requirements of this section.

6. A person that has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing institutional funds.

State Statutes

The BCPL is a state agency with an operating budget that requires legislative approval. Beginning in FY2020, BCPL expenses will be funded through State of Wisconsin General Purpose (Tax) Revenues and is no longer funded through program revenues (investment earnings).

The State Legislature also has the authority to specify the universe of investments available to the BCPL, although it may not direct the BCPL to make any particular investment. In addition, statutes also provide the authority and general terms of the BCPL State Trust Fund Loan Program. Recent changes to statutes require the BCPL to utilize the Prudent Investor Standard, which is believed to be in the long-term best interest of Trust Fund beneficiaries. While the School Trust Funds are protected within the State Constitution, the state legislature is a political body that controls the future course of agency policies and procedures.

General Investment Guidelines and Restrictions

1. All investments made shall be subject to the quality and diversification restrictions established by the Prudent Investor Standard.
2. Assets may be held in commingled funds and/or privately managed separate accounts. Exposure through commingled funds, ETFs, and mutual funds shall be evaluated on a case-specific basis through analysis of the prospectus or offering document.
3. No more than 5% of the stock of any corporation may be owned by any School Trust Fund.
4. With the exception of debt instruments issued by the State of Wisconsin and the United States of America (including various agencies and government-sponsored enterprises including the Federal Farm Credit System), investments representing the debt or equity of any one company, institution, or real estate project shall not exceed 5% of the market value of any School Trust Fund.
5. Cash management will be controlled on a portfolio-wide basis, and managers are expected to remain fully invested in the types of securities for which they have responsibility, unless otherwise authorized.
6. The utilization of leverage is permitted in accordance with industry and market standards for permitted investments under this policy. Any use of leverage will be consistent with the strategy for which the BCPL hired the manager and controlled by the specific guidelines for that manager. BCPL may not borrow money without board authorization.
7. The BCPL recognizes that the Funds are exposed to currency risk through international equity, fixed income, and absolute return allocations. The BCPL prefers to utilize unhedged benchmarks and does not require managers to hedge the currency exposure in their portfolios.

Permitted Investments

The BCPL may invest in the following securities and investment activities as long as such investments comply with the Prudent Investor Standard. Unless otherwise prohibited by law, the investment may be acquired directly or through a vehicle including, but not limited to, exchange-traded-funds, mutual funds, limited partnerships, limited liability companies, or trusts.

Equities

1. Common stock, preferred stock, initial public offerings, Real Estate Investment Trusts (REIT's), securities of foreign issuers listed on U.S. Exchanges, and any security convertible to common stock or American Depository Receipts (ADR's) that are registered by the U.S. Securities and Exchange Commission (SEC) of any corporation whose securities are listed on at least one U.S. stock exchange that has been approved by or is controlled by the SEC or on the National Association of Securities Dealers (NASD).
2. Preferred stock, common stock, and convertible issues of any non-U.S. Corporation; which may be denominated in a foreign currency, provided that the securities are traded on one or more national stock exchanges or included in a nationally recognized list of stocks.
3. The BCPL shall not be invested in more than five percent of the voting stock of any company.
4. The BCPL shall not make direct investments in the common stock of any individual corporation without prior BCPL Board approval. This paragraph shall not limit the actions of any external manager hired by BCPL or the investment of BCPL in externally managed funds that purchase common stocks or other equity interests.

Fixed Income

1. Bonds, notes or other obligations of the United States government, its agencies, government-sponsored enterprises, corporations, or instrumentalities for which the credit of the United States government is pledged for the payment of the principal and interest.
2. Bonds, notes or other obligations issued by any state, its agencies, municipalities, or other political subdivisions.
3. Bonds, notes or other obligations issued by the State of Wisconsin, its agencies or authorities, or Wisconsin municipalities or school districts and their agencies or authorities.
4. Bonds, notes, commercial paper or other obligations of any corporation organized and operating within the United States.
5. Debt obligations of non-U.S. governmental or quasi-governmental entities, these may be denominated in foreign currencies; obligations, including but not limited to bonds, notes or commercial paper of any corporation organized outside of the United States. Currency transactions, including spot or cash basis currency transactions, forward contracts and buying or selling options or futures on foreign currencies, shall be permitted.
6. Collateralized obligations, including but not limited to mortgages, held in trust that: (1) are publicly traded and are registered by the SEC or other Self-Regulatory Organization (SRO) and (2) have underlying collateral that is either an obligation of the United States government or else has an investment grade rating (unless otherwise approved by the Investment Committee).
7. High yield fixed income securities rated below 'BBB' according to the Standard and Poor's rating system and below 'Baa' according to the Moody's investors rating system.

Real Estate

Direct investment in real estate is allowed (subject to any statutory limitations), in addition to investments through limited partnerships or limited liability companies that have a direct ownership interest in real estate properties, whether income-producing or non-income producing.

Absolute Return

Liquid multi-asset/global tactical asset allocation funds that have the ability to shift capital tactically based on relative valuations, providing broad diversification across a range of global investments.

Diversified Inflation Strategies

1. Inflation-indexed bonds, including investments in actively or passively managed investment vehicles. Treasury Inflation Protected Securities (TIPS) are an example of inflation-indexed bonds.
2. Commodities, including but not limited to futures and/or swaps on individually traded commodities or indexes comprising groups of commodities like the Goldman Sachs Commodity Index (GSCI) or Bloomberg Commodities Index.
3. Master Limited Partnerships (MLPs) focused in energy sector including companies that own or operate energy assets or are involved in the transportation, processing, and storage of natural resources.
4. Natural resources securities including securities of natural resource companies and industrial companies related to the natural resources industry and instruments that derive their value from natural resources.

Cash Investment Guidelines

The BCPL will maintain cash positions in amounts necessary for liquidity, distributions to beneficiaries, and ongoing investment activities including risk reduction when appropriate. In addition to the State Investment Fund, eligible securities include:

1. Bond Anticipation Notes, Note Anticipation Notes, and Tax Revenue Anticipation Notes issued by Wisconsin School Districts and Municipalities.
2. Deposit accounts with banks incorporated within the United States.
3. Commercial paper issued by corporations organized and operating within the U.S. and rated "prime" quality by a national rating service.
4. Repos secured by U. S. obligations or other securities backed by the U.S., A1 or P1 commercial paper, corporate obligations rated AA or better and maturing in five years or less, or asset-backed securities rated AAA. All repo collateral must have a market value of at least 102% of the market value of the contract.

Return Objectives, Smoothing Accounts and Annual Distributions

The mission of the BCPL is to maintain significant, stable, and sustainable distributions to fund beneficiaries. Sustainability in this context means that asset management of the School Trust Funds is to take a multi-generational approach, accountable to both current and future beneficiaries.

The return objective of the BCPL will be to achieve the highest level of long-term investment returns compatible with the risk tolerance of the fund and prudent investment practices. This objective is defined as the return necessary to maintain current levels of income distribution plus long-term expected inflation and investment management expenses. The long-term goal of this policy is to generate returns that increase annual income distributions provided to beneficiaries at or above the appropriate rate of inflation.

Establishment of Smoothing Accounts for the Common School Fund and Normal School Fund

Beneficiaries of the Common School Fund and the Normal School Fund are dependent on the distribution of Trust Fund income to fund operations. This is less true for the University Fund and Agricultural College Fund, whose beneficiary is the general fund of the University of Wisconsin (UW) and annual distributions of trust fund income are currently a very small portion of the UW budget.

For the Common School Fund and the Normal School Fund, the transition from a portfolio consisting solely of fixed income securities to an asset allocation model that increases expected investment returns will impact both the volatility of annual returns and funds available for distribution. The importance of stable annual distributions to the beneficiaries in this new environment of higher volatility necessitates the establishment of targeted annual distributions with associated smoothing accounts.

Amount and Funding of Smoothing Accounts

Segregated smoothing accounts have been established for both the Common School Fund and Normal School Fund from net investment income earned above the targeted annual distribution. The State Constitution does not allow the distribution of fund principal, making it is necessary to establish these segregated smoothing accounts *from earnings.* The smoothing funds will be used to supplement the annual distribution to beneficiaries during years when distributable income does not meet the targeted annual distribution.

The market conditions that might cause a decline in distributable earnings could persist for several years, and the smoothing accounts must be sized to supplement distributions during this entire period. A prudent minimum amount to be maintained within the Common School Fund and Normal School Fund smoothing accounts is hereby established at 50% of the next targeted annual distribution at the end of each fiscal year.

The BCPL Investment Committee has the authority to increase the minimum amount to be held in the smoothing fund to a maximum 100% of the next targeted distribution amount. This action shall require the Investment Committee to make a determination that the increase is in the long-term best interest of beneficiaries.

Annual Distributions

The targeted annual targeted distribution will be the average annual net investment income earned over the prior five fiscal years (e.g. the distribution to be made in April 2020 is the average annual net investment income earned during the five years ending June 30, 2019). Net investment income is hereby defined as total interest, dividends and short-term capital gains less all costs incurred by BCPL in the management of the trust funds.

The following process shall determine the flow of net investment income during each fiscal year:

1. On October 1 of each fiscal year, the BCPL Senior Accountant/Financial Manager shall determine the following:
    a. The targeted distributions for the current fiscal year for both the Common School Fund and Normal School Fund, calculated as average annual net investment income earned by each fund during the five years ending on the preceding June 30.
    b. The minimum amount of each smoothing fund, calculated at 50% of the targeted distributions as defined above.
    c. The current amount of each smoothing fund, defined as that fund's portion of Fund 763 appropriation 902 on the preceding June 30.
2. If the current amount of the smoothing fund is greater than the minimum amount of the smoothing fund, the Investment Committee may determine to add all or a portion of that difference to the targeted distribution for the current fiscal year.
3. Net investment income beginning on July 1 will be allocated in the following order:
    a. Smoothing fund in amounts necessary to increase the current amount to the minimum amount;
    b. Targeted distribution for the following April;
    c. Smoothing fund.
4. If the net investment income available at the time of distribution is less than the targeted distribution, a transfer from the appropriate smoothing fund will supplement net investment income so that the amount of the fiscal year distribution is equal to the targeted distribution.

Additions to Fund Principal

Constitutional Additions to the Common School Fund

Article X, Section 2 of the State Constitution requires that:

> "The proceeds of all lands that have been or hereafter may be granted by the United States to this state for educational purposes… and all moneys and the clear proceeds of all property that may accrue to the state by forfeiture or escheat; and the clear proceeds of all fines…for any breach of the penal laws, and all moneys arising from any grant to the state where the purposes of such grant are not specified… shall be set apart as a separate fund to be called "the school fund"…[4]

As mentioned earlier, the Common School Fund was originally established with federal land grants totaling about 1.5 million acres. The fund has stayed relevant since statehood because the proceeds from the original land sales have been supplemented through the above constitutional provision. However, the increase in the number of municipal courts, improved systems for returning unclaimed property, and changes in the state regulatory environment have combined to slow down the growth of fund principal in recent years.

This trend magnifies the importance that all sources of fines and forfeitures that accrue to the state are secured for the Common School Fund, as directed in the constitution. An important element of the fiduciary duty of the BCPL is that all reasonable measures are taken to ensure that funds that legally belong to the Common School Fund are so deposited, and that the BCPL challenges any diversion of such funds to the fullest extent possible.

Long-Term Capital Gains

Long-term capital gains (gains and losses on the sale of assets held one year or longer) shall be retained and added to the principal of each School Trust Fund at the time earned.

This policy continues a BCPL accounting standard that dates from the mid-1800s. In early BCPL history, BCPL-managed lands included both agricultural and timberland parcels. BCPL categorized the sale proceeds from seasonal crops (mostly hay) as income to be distributed to Trust Fund beneficiaries. However, the proceeds from timber sales were added to Trust Fund principal. These distinct treatments make sense in that the harvesting of seasonal crops does not normally deplete the value of a land asset, while timber harvests can have a significant and detrimental impact on land values. This principle is consistent with accounting standards for short-term and long-term capital gains. Short-term capital gains are generally treated like annual interest income, with no impact on the inherent value of the asset. Long-term capital gains are added to trust principal, because the distribution these gains could diminish the value of trust assets for future beneficiaries.

Unique Elements of BCPL-Managed Funds

BCPL State Trust Fund Loan Program

Since first authorized by the State of Wisconsin legislature in 1871, the primary investment vehicle for the BCPL has been the State Trust Fund Loan Program, a direct lending program to Wisconsin municipalities and school districts. This program has provided funding for countless public projects throughout the state, and continues to be a major source of funding for economic development, local infrastructure, school repairs and improvements, and the purchase of vehicles and capital equipment. This program is highly valued by municipalities and school districts because there are no fees, the simplified borrowing process requires no third-party assistance, loan terms are flexible including prepayment without penalty, and interest paid is returned to communities across Wisconsin as public school library aid.

In addition to providing an important source of funding to Wisconsin communities, the loan program originates investment assets with very low default risk. In fact, there has not been a single loan default in the 148-year history of the program. One major reason for this success is that Wisconsin statutes require the BCPL to intercept state aid upon a borrower loan default. State funding of local expenditures is a major source of revenues for individual municipalities and school districts in Wisconsin, and this potential intercept provides a significant incentive for borrowers to stay current on BCPL loan payments.

The state aid intercept allows the BCPL to make loans to communities with lower credit ratings and expect full repayment of principal and interest when due. Trust Fund beneficiaries gain from expansion of the program to all communities within the state, without the additional costs and complexity that would be required with a full underwriting of borrower credit quality. Value is created because the statutory intercept provisions increase the potential credit rating on any loan to the State of Wisconsin equivalent of Aa1/AA+ regardless of the underlying credit quality of the borrower.

An analysis comparing the yields generated by the BCPL loan portfolio to corporate bonds indicates that the Trust Fund Loan Program generates excess returns, providing a substantial advantage to Trust Fund beneficiaries.[3] Program yields are higher than would be expected in the open market for the level of underlying default risk. These excess returns provide an opportunity for BCPL to explore the possibility of creating an on-going source of capital gains and/or servicing income by selling loans on the secondary market. The creation of a pipeline for selling loans might also provide the BCPL with additional flexibility in the management of Trust assets. For example, if the total amount of outstanding loans exceeds the target allocation for that asset class, BCPL could sell excess loans rather than take actions designed to reduce loan demand.

Land Assets

The BCPL has managed State of Wisconsin School Trust Lands since statehood in 1848. Originally granted to Wisconsin from the Federal Government, School Trust Lands eventually totaled almost 4 million acres with the vast majority sold during the 1800s. The BCPL continues to manage approximately 75,700 acres that are concentrated within a nine county consolidation zone in North Central Wisconsin. About 6,100 acres are held in the Common School Fund, with 69,600 acres in the Normal School Fund.

Land assets play an important role in strategic asset allocation by providing diversification and inflation protection to the Trust Fund portfolios. At some point in the future, BCPL may want to reconsider the current asset allocation to timberland, but it is in the best interest of Trust Fund beneficiaries to take reasonable steps in maximizing the value of BCPL-managed land assets prior to any land sales.

Article X, Section 7 of the State Constitution created the BCPL to sell the lands granted to Wisconsin by the Federal Government and invest the proceeds within a trust to benefit public schools. Section 8 requires that these lands be appraised before sale, and allows the Board to withhold land from sale "when they shall deem it expedient." Section 8 also provides that funds shall be invested "in such manner as the legislature shall provide".

In 2006, the Wisconsin Legislature unanimously approved legislation with the moniker of "Land Bank Authority", which provided limited authority to the BCPL to purchase replacement land assets. This law

[3] BCPL Board Meeting Agenda and Minutes - January 19, 2016. Item 5, Pages 2-3. "Analysis of Trust Fund Loan Program Yields"

authorized BCPL to use the proceeds from the sale of School Trust Land sales solely for the purchase of replacement school trust lands when the BCPL determined that the purchase would improve timberland management, address forest fragmentation, or increase public access. The legislation capped the total acreage owned within the combined School Trust Funds, but allowed the BCPL to rearrange holdings into more productive, accessible, and larger tracts that could be managed more efficiently. The law recognized the importance of maintaining land as an asset within the Trust Fund portfolios while also providing a mechanism to improve underperforming parcels.

Since that time, the BCPL has sold about 15,582 acres and purchased about 13,936 acres of replacement School Trust Lands. These replacement lands have improved the quality and value of the land portfolio by:

- Providing access to over 3,000 acres of previously landlocked parcels;
- Increasing timber revenues as newly acquired lands contain more upland acreage and timber; and
- Improving management efficiencies and economies of scale through blocking and creation of larger tracts.

Moving forward, the goal of BCPL land management is to accelerate the consolidation of remaining School Trust Lands into productive tracts of timberland. All parcels will be identified either for retention in the BCPL-managed portfolio or as excess land. Reasonable efforts will be taken to improve the marketability of excess lands that have curable defects or impediments to value. The sale of any parcel will be completed in a manner that maximizes the net present value of sale proceeds. Consolidation of land assets has been a goal of the BCPL for many years, and continued progress will require the dedication of agency resources and the availability of Land Bank Authority and other tools.

State of Wisconsin
School Trust Fund Investment Policy Statements

Common School Fund
Normal School Fund
University Fund
Agricultural College Fund

Common School Fund

Investment Policy Statement

Fund Purpose

The Common School Fund is a permanent trust fund established in 1848 within the State Constitution for the purpose of education. The beneficiaries consist of all K-12 public school districts located in Wisconsin, and earnings from investment of the Common School Fund are currently directed to provide the sole state aid for the purchase of public school library media and resources.

Funding Sources

This Fund was originally established with federal land grants totaling about 1.5 million acres. Except for about 6,100 acres that remain in trust, all lands from these original grants were sold to establish the Fund.

Principal has continued to grow because the State Constitution provides that the Common School Fund receive all monies and the clear proceeds of all fines and forfeitures (including unclaimed and escheated property) that accrue to the state.

Capital gains on investments held one year and longer shall be added to the principal of the Fund.

Distribution Policy

Interest income, dividends, and short-term capital gains are distributed to beneficiaries in accordance with the State Constitution and agency policy. Distributions shall adhere to the policy described in detail on pages 13-14, with the targeted distribution at the 5-year moving average of fund net annual earnings during the prior five fiscal years.

A smoothing account shall be established from withheld earnings, with the minimum dollar amount to be determined on October 1st of each year at 50% of the next targeted distribution amount. The smoothing account shall be used to supplement the distribution during years when interest, dividends and short-term capital gains earned during the current fiscal year are lower than the targeted distribution.

The BCPL Investment Committee has the authority to increase the minimum amount to be held in the smoothing fund to a maximum 100% of the next targeted distribution amount. This action shall require the Investment Committee to make a determination that the increase is in the long-term best interest of beneficiaries.

Investment Objective

The annual return objective will be to maximize expected earnings within acceptable risk parameters. The long-term goal is to produce an increase in annual distributable earnings that exceeds the long-term rate of inflation.

There are many measures of inflation published by the U.S. Bureau of Labor Statistics, but the appropriate measure of inflation for these purposes should be strongly related to the use of funds. In the case of the

Common School Fund, the funds are currently directed to purchase public school library media and resources and the most appropriate inflation index is CPI-Educational Books and Supplies. Published by the U.S. Bureau of Labor Statistics, this index has grown at an average annual rate of 6.0% since first created in 1967. Inflation in educational books and supplies has remained significantly higher than the overall inflation rate:

Average Annual Rate of Inflation

	CPI Educational Books and Supplies	CPI	Common School Fund
1967-2019	6.0%	4.0%	7.2%
2000-2019	5.0%	2.1%	5.2%
2010-2019	3.6%	1.7%	3.7%

The Federal Reserve has chosen 2.0% as the long-term inflation target within the United States, and since the early 1980s has been quite effective in maintaining lower overall inflation rates. Should historical tendencies continue, inflation in educational books and supplies will outpace the rate of general inflation rate moving forward. There is no reason to predict that the Federal Reserve will lose the ability to control future inflation, and that overall long-term inflation will remain near 2%. A prudent assumption for the Common School Fund will include a premium above the overall rate, and this Investment Policy Statement shall assume long-term inflation for educational books and supplies at 4%.

The growth of Trust Fund principal at or above the long-term rate of inflation is required for equitable treatment of future generations. For the Common School Fund, this growth has historically come from fines, forfeitures and escheats that accrue to the State of Wisconsin

As shown above, the growth in Common School Fund principal has remained at or slightly above the appropriate rate of inflation over the past several decades. For two reasons, that is not likely to continue if future growth is limited to the historic transfers of fines, forfeitures and escheats. First, there are political and economic pressures on amounts contributed to the Common School Fund from these historic sources. Second, there is a natural difficulty in maintaining growth rates as any fund or other enterprise gets larger. Because we can no longer assume that the historic sources of principal growth will continue to increase fund principal at or above the rate of inflation, it will be necessary to rely on for fund investments to contribute to that growth rate with the addition of long-term capital gains.

A prudent assumption may be that financial assets need to contribute 1-2% of annual growth, and this requirement will likely grow over time. Sustaining this level of fund growth while producing the stable income stream necessary to fund beneficiary distributions will require a significant shift to asset classes including equities and real estate.

Portfolio Constraints

Wisconsin Constitution

The Wisconsin Constitution requires that all Common School Fund income is distributed to beneficiaries, with principal balances maintained within the fund. Most other endowments distribute both interest and principal to meet the needs of beneficiaries, and pay out a fixed percentage of the beginning principal balance regardless of investment results. The inability to distribute Common School Fund principal is critical to asset management policy, and requires that Common School Fund assets are managed differently than the peer group of endowments. The ability of the smoothing account to stabilize future distributable income supports diversification into non-income-producing assets, but the extent of that diversification is limited when compared to endowments able to distribute fund principal.

While fines, forfeitures and escheats that accrue to the State are added to fund principal on a regular basis, these contributions no longer provide amounts adequate to maintain fund growth above the long-term rate of inflation. This decline in state contributions necessitates the allocation to assets able to generate long-term capital gains to supplement fund growth. Through this policy, BCPL is seeking to balance the competing needs of current and future generations of beneficiaries.

Beneficiary Dependence on Annual Distributions

Earnings from investment of the Common School Fund are currently directed to provide the sole state aid for the purchase of public school library media and resources. This dependence has a significant impact on the management of the trust funds by reducing the acceptable amount of risk available in the management of Common School Fund investments. The smoothing account mitigates, but does not eliminate, the impact of beneficiary dependence on investment management.

Liquidity

The BCPL State Trust Fund Loan Program provides excess investment returns for Trust Fund beneficiaries, and one goal of this policy is to provide sufficient liquidity to fund expected near-term loan demand . Annual loan disbursements for the past decade have averaged $130 million, but required liquidity varies with market conditions including macro and seasonal loan demand. It is anticipated that future liquidity requirements for the loan program can be met thorough liquidity management and the sale of investments.

Legacy Assets and Investment Policy Transition

The Common School Fund must transition from a fixed-income portfolio to a diversified portfolio as required by the recent implementation of the Prudent Investor Standard. The goal of this new policy will be to provide stable distributions in addition to capital gains that increase fund principal at or above the rate of inflation. The allocation to new asset classes will be systematic and determined by the confidence level in maintaining targeted distribution amounts to beneficiaries. In addition, the entry point into new asset classes must consider current available valuations within a historic context, with the timing of additional diversification benefits secondary to relative values. In addition, initial allocations within asset classes are likely to be tilted towards assets that produce distributable income.

Strategic Asset Allocation

The Common School Fund is a permanent endowment for education and therefore similar to endowments that have been established for institutions of higher learning throughout the United States. This peer group of College and University Endowments generally utilizes the common method of distributing a fixed percentage of both principal and interest each year regardless of investment results. Because constitutional constraints prevent the Common School Fund from distributing principal, the asset allocation of these endowments is considered useful only for long-range planning purposes. The immediate adoption of the full peer group allocation model would increase portfolio risks to an unacceptable level. This peer group, narrowed by size to include seventy-seven U.S. College and University Endowments with assets between $500 million and $1 billion, had an average asset allocation during 2018 as shown below:

Asset Class	2018 NACUBO Allocation*
Fixed Income	10%
Domestic Equities	22%
International Equities	22%
Real Estate	3%
Private Equity	8%
Venture Capital	3%
Other Alternative Strategies**	27%
Cash	5%

* 2018 NACUBO-Commonfund Study of Endowments with total assets from $501 million to $1 billion. Full study is available from the National Association of College and University Business Officers.
** Other alternative strategies include hedge funds, absolute return, market neutral, long/short, 130/30, event-driven, derivatives, energy and natural resources, commodities, managed futures, and distressed debt.

BCPL has several strategic advantages available for asset management, and Common School Fund asset allocations should be designed to maximize the impact of these strengths, which include:

- The BCPL State Trust Fund Loan Program;
- BCPL staff, which provides low-cost in-house expertise in the Wisconsin credit markets, fixed-income investing, real estate and forestry;
- Strong institutional and professional relationships with other state agencies and staff, including the State of Wisconsin Investment Board (SWIB); and
- Strong institutional and professional relationships with the University of Wisconsin and the Wisconsin Alumni Research Foundation (WARF) and staff.

Examples of capitalizing on these strengths include the collaboration between BCPL and experts from the UW-Madison School of Business to develop the initial target asset allocation in 2016, along with BCPL discussions with SWIB and WARF staff regarding commitments to Wisconsin-based venture capital funds.

Recognizing that a long-term target allocation utilizing new asset classes can take years to implement prudently, the Board delegates implementation of the strategic asset allocation policy to the BCPL Investment Committee including interim funding levels of asset classes, and the setting of interim asset allocation targets and benchmarks. The Strategic Asset Allocation is reviewed annually by the Investment Committee, with recommended changes to be approved by the Board.

Based on the objective to contribute long-term capital gains to principal, long-term return expectations, and risk tolerance, the BCPL has chosen the following strategic asset allocation policy for the Common School Fund (as of June 30, 2019):

Common School Fund Target Asset Allocation

Asset Class	Current Allocation 06/30/19	Target Allocation	Range
Fixed Income	**74%**	**60%**	
Public Debt			
State/State Agency/Municipal Bonds	**17%**	**10%**	**5% to 30%**
U.S. Treasury/Agency Bonds	**16%**	**5%**	**5% to 30%**
U.S. Treasury Inflation Protected Securities (TIPs)	**0%**	**0%**	**0% to 10%**
Corporate Bonds ETFs	**0%**	**5%**	**0% to 10%**
Private Debt			
BCPL State Trust Fund Loans	**38%**	**35%**	**20% to 50%**
Other Private Debt	**2%**	**5%**	**0% to 10%**
Equities and Alternatives	**6%**	**35%**	
Public Equities			
Domestic ETFs	**3%**	**7.5%**	**5% to 10%**
Global ETFs	**3%**	**7.5%**	**5% to 10%**
Private Equity and Alternatives			
Real Estate/Infrastructure	**0%**	**15%**	**5% to 25%**
Private Equity/Venture Capital	**1%**	**5%**	**0% to 10%**
Cash	**20%**	**5%**	**0% to 10%**

Rebalancing

Rebalancing is the term that describes the periodic movement of funds from one asset or asset class to another in order to realign assets to the strategic asset allocation target. Systematic rebalancing can reduce portfolio volatility and increase portfolio return over the long-term. However, frequent rebalancing resulting from excessively tight ranges can lead to unnecessary transaction costs.

The Investment Committee will be responsible for developing and implementing a rebalancing plan that is appropriate for existing market conditions, with a primary objective of minimizing transaction costs, market impact, opportunity costs and portfolio disruptions. To the extent possible, cash flows and revenues will be used to maintain the strategic target allocation.

Recognizing that at times it may be impractical or costly to reallocate assets when an upper or lower limit is breached, the asset class will be rebalanced to within its strategic asset allocation range as soon as is practically possible, subject to reasonable transaction costs.

Tactical Asset Allocation

Capital markets exhibit periodic inefficiencies that may be exploited through shorter-term tactical shifts in asset allocations to increase expected investment performance. The amount of any tactical allocation shall be limited to ranges specified within the approved asset allocation.

Benchmark

The Board has selected the following benchmarks for the Common School Fund:

Asset Class	Benchmark
Fixed Income	S&P Taxable Municipal Bond
Domestic Equities	Russell 3000 Index
International Equities	MSCI ACWI Ex-USA Index
Cash	S&P U.S. Treasury Bill Index
Real Estate	NFI-ODCE Property Index

Normal School Fund

Investment Policy Statement

Fund Purpose

The University of Wisconsin, as the successor of the original normal schools, is the beneficiary of the Normal School Fund. Distributions are currently directed by Statute to provide funding for UW student scholarships and program funding at the UW-Stevens Point.

Funding Sources

This Fund was originally established with federal land grants totaling about 1.75 million acres. Except for about 70,800 acres that remain in trust, all lands from these original grants were sold to establish the Fund. Additions to principal come from the gross proceeds of timber sales.

Distribution Policy

This fund was originally established for monies not needed by common schools, and is governed by the same constitutional language that constrains investment of the Common School Fund. Interest income, dividends, and short-term capital gains are distributed to beneficiaries in accordance with the State Constitution and agency policy. Gross timber revenues and other long-term capital gains are added to Normal School Fund principal when received.

Distributions shall adhere to the policy described in detail on Pages 13-14, with the targeted distribution at the 5-year moving average of fund net annual earnings during the prior five fiscal years. However, the FY2020 switch to GPR (State of Wisconsin general purpose tax revenues) funding of agency expenses requires that the calculation of targeted distribution through FY2024 include Normal School Fund gross revenues rather than net earnings for years prior to FY2020.

A smoothing account shall be established from withheld earnings, with the minimum dollar amount to be determined on October 1st of each year at 50% of the next targeted distribution. The smoothing account shall be used to supplement the distribution during years when interest, dividends and short-term capital gains earned during the current fiscal year are lower than the targeted distribution.

The BCPL Investment Committee has the authority to increase the minimum amount to be held in the smoothing fund to a maximum 100% of the next targeted distribution amount. This action shall require the Investment Committee to make a determination that the increase is in the long-term best interest of beneficiaries.

Investment Objective

The annual return objective will be to maximize expected earnings within acceptable risk parameters. The long-term goal is to increase fund principal and annual distributions to beneficiaries at or above the rate of inflation.

There are many measures of inflation published by the U.S. Bureau of Labor Statistics, but the appropriate measure of inflation for these purposes should be strongly related to the use of funds. In the case of the Normal School Fund, the funds are used for programs and scholarships at the University of Wisconsin and the most appropriate inflation index is CPI-Education. Published by the U.S. Bureau of Labor Statistics, this index has grown at an average annual rate of 4.9% since first created in 1993. Inflation in education has remained significantly higher than the overall inflation rate:

Average Annual Rate of Inflation

	CPI - Education	CPI	Normal School Fund*
1993-2019	4.9%	4.0%	1.7%
2000-2019	4.7%	2.1%	1.9%
2010-2019	3.3%	1.7%	1.8%

*Fund balance for 2010 and 2019 is net of monies reserved for land bank purchases.

The Federal Reserve has chosen 2.0% as the long-term inflation target within the United States, and since the early 1980s has been quite effective in maintaining lower overall inflation rates. Should historical tendencies continue, inflation in education will outpace the rate of general inflation rate moving forward. There is no reason to predict that the Federal Reserve will lose the ability to control future inflation, and that overall long-term inflation will remain near 2%. A prudent assumption for the Normal School Fund will include a premium above the overall rate, and this Investment Policy Statement shall assume long-term inflation for education at 4%.

The growth of Trust Fund principal at or above the long-term rate of inflation is required for equitable treatment of future generations. Since statehood, principal of the Normal School Fund had grown only through the sale of timber harvested from Trust Lands. In recent history, net timber revenues have not provided sufficient growth for fund principal to keep pace with inflation. As noted above, the switch to GPR funding of expenses allows the reallocation of financial assets to supplement timber revenues as a source of long-term capital gains, with these gains added to fund principal.

A prudent assumption may be that financial assets need to produce total fund growth of 2-3% on an annual basis. Sustaining this level of fund growth while producing the stable income stream necessary to fund designated UW scholarship and academic programs will require a significant shift to asset classes including equities and real estate.

Portfolio Constraints

Wisconsin Constitution

The Wisconsin Constitution requires that all Normal School Fund income is distributed to beneficiaries, with principal balances maintained within the fund. Most other endowments distribute both interest and principal to meet the needs of beneficiaries, and pay out a fixed percentage of the beginning principal balance regardless of investment results. The inability to distribute Normal School Fund principal is critical to asset management policy, and requires Normal School Fund assets to be managed differently than the peer group of endowments.

Beneficiary Dependence on Annual Distributions

Earnings are distributed to the University of Wisconsin and are currently dedicated to fund scholarships for UW-Madison and UW-Extension students as well as programs at UW-Stevens Point. While this distribution is a small percentage of the total budget of the University, these monies remain an important source of funding for these scholarships and academic programs.

Prior to FY2020, agency expenses for timber and land management programs were funded by the income generated by financial assets. The need for a stable source of income to fund these expenses had required that financial assets were invested solely in fixed income securities. The FY2020 switch to GPR (State of Wisconsin general purpose tax revenues) funding of agency expenses allows the consideration of other asset classes for investment of Normal School Fund financial assets.

Liquidity

Liquidity is necessary only for the amount and timing of distributions.

Strategic Asset Allocation

Based on the objective to contribute long-term capital gains to principal, long-term return expectations, and risk tolerance, the BCPL has chosen the following strategic asset allocation policy for the Normal School Fund (as of June 30, 2019):

Normal School Fund Target Asset Allocation

Asset Class	Current Allocation 06/30/19	Target Allocation	Range
Fixed Income	**80%**	**40%**	
Public Debt			
State/State Agency/Municipal Bonds	**20%**	**5%**	**0% to 20%**
U.S. Treasury/Agency Bonds	**0%**	**0%**	**0% to 20%**
U.S. Treasury Inflation Protected Securities (TIPs)	**0%**	**0%**	**0% to 10%**
Corporate Bonds ETFs	**0%**	**0%**	**0% to 10%**
Private Debt			
BCPL State Trust Fund Loans	**60%**	**35%**	**20% to 50%**
Other Private Debt	**0%**	**0%**	**0% to 10%**
Equities and Alternatives	**0%**	**60%**	
Public Equities			
Domestic ETFs	**0%**	**15%**	**5% to 25%**
Global ETFs	**0%**	**15%**	**5% to 25%**
Private Equity and Alternatives			
Real Estate/Infrastructure	**0%**	**30%**	**5% to 40%**
Private Equity/Venture Capital	**0%**	**0%**	**0% to 10%**
Cash	**20%**	**0%**	**0% to 10%**

Rebalancing

Rebalancing is the term that describes the periodic movement of funds from one asset or asset class to another in order to realign assets to the strategic asset allocation target. Systematic rebalancing can reduce portfolio volatility and increase portfolio return over the long-term. However, frequent rebalancing resulting from excessively tight ranges can lead to unnecessary transaction costs.

The Investment Committee will be responsible for developing and implementing a rebalancing plan that is appropriate for existing market conditions, with a primary objective of minimizing transaction costs, market impact, opportunity costs and portfolio disruptions. To the extent possible, cash flows and revenues will be used to maintain the strategic target allocation.

Recognizing that at times it may be impractical or costly to reallocate assets when an upper or lower limit is breached, the asset class will be rebalanced to within its strategic asset allocation range as soon as is practically possible, subject to reasonable transaction costs.

Tactical Asset Allocation

Capital markets exhibit periodic inefficiencies that may be exploited through shorter-term tactical shifts in asset allocations to increase expected investment performance. The amount of any tactical allocation shall be limited to ranges specified within the approved asset allocation.

Benchmark

Recognizing that a long-term target allocation to alternative asset classes can often take a matter of years to implement prudently, the Investment Committee will review benchmarks to be adjusted as progress is made towards the long-term strategic asset allocation target.

The Board has selected the following benchmarks for the Normal School Fund:

Asset Class	Benchmark
Fixed Income	S&P Taxable Municipal Bond
Domestic Equities	Russell 3000 Index
International Equities	MSCI ACWI Ex-USA Index
Cash	S&P U.S. Treasury Bill Index
Real Estate	NFI-ODCE Property Index

University Fund

Investment Policy Statement

Fund Purpose

The purpose of the University Fund is to support the University of Wisconsin.

Funding Sources

In 1838, Congress granted to the Territory of Wisconsin the equivalent of two townships, or 72 square miles of land, to be sold to support a university. In 1854, Congress granted an additional two townships of land to benefit a university. Most of these lands were sold soon after Wisconsin obtained title, and no provision was made in the law for adding to the principal of this fund.

Distribution Policy

All interest earnings, dividends and short-term capital gains are distributed to the University of Wisconsin.

Investment Objective

The return objective of the University Fund is to maximize long-term capital gains so that fund principal grows at levels higher than the rate of inflation. The Prudent Investor Standard is now available to guide management of fund assets and distribution of current income has very little impact on University of Wisconsin operations. Fund principal should be allowed to grow so that the University Fund may be relevant to future generations of University Wisconsin students.

Portfolio Constraints

Fund size limits the availability of alternative investments and the flexibility of the strategic asset allocation.

Strategic Asset Allocation

The beneficiary is not dependent in any manner from distributions of this fund, so the University Fund should be fully allocated in a manner to generate long-term capital gains. The small size of the Fund makes it efficient to utilize passively-managed equity mutual funds or ETFs that are focused on long-term capital gains.

Benchmark

The Board has selected the following benchmarks for the University Fund: Russell 3000 Index.

Agricultural College Fund

Investment Policy Statement

Fund Purpose

The purpose of the Agricultural College Fund is to support the University of Wisconsin.

Funding Sources

The Agricultural College Fund was established with an 1862 act of Congress that granted land to create a permanent endowment to support "colleges of agriculture and mechanical arts" in each state. The Morrill Act gave rise to land grant colleges across the nation by providing that each state was entitled to 30,000 acres of land for each member of Congress. Wisconsin had eight Congressional representatives at that time, so received title to 240,000 acres of land under this law. These lands were sold shortly after Wisconsin obtained title, and no provision was made in the law for adding to the principal of this fund.

Distribution Policy

All interest earnings and short-term capital gains are distributed to the University of Wisconsin.

Investment Objective

The return objective of the Agricultural College Fund is to maximize interest income within acceptable risk parameters.

Portfolio Constraints

The Agricultural College Fund is constrained to investment in government fixed-income securities by Section 4 of the Morrill Act of 1862.

Strategic Asset Allocation

The beneficiary has absolutely no dependence on distributions from the Agricultural College Fund, so it is appropriate to invest fully in Treasury Inflation Indexed Securities. The beneficiary would receive a small interest payment each year, and inflation would be added to principal to grow the fund over time. This strategy may provide for an impactful distribution in some future year.

Benchmark

The Board has selected the following benchmarks for the Agricultural College Fund: Russell 3000 Index.

Addendum 1

CFA Institute Code of Ethics and Standard of Professional Conduct
CFA Institute Asset Manager Code of Conduct

State of Wisconsin - Office of the State Treasurer

B38W, State Capitol
Post Office Box 7871
Madison, WI 53707

Sarah Godlewski
State Treasurer

MEMORANDUM

DATE: November 7, 2019

TO: Attorney General Josh Kaul and Secretary of State Doug La Follette

FROM: Treasurer Sarah Godlewski, Chair of the Board of Commissioners of Public Lands

CC: Jonathan Barry, Executive Secretary of the Board of Commissioners of Public Lands

SUBJECT: BCPL School Trust Fund Investment Policy Statement

The School Trust Investment Policy Statements ("policy") will be an item on our agenda on Tuesday, November 12, 2019.

The first version of this policy was drafted after enactment of Wisconsin Act 60 to provide additional guidance around the BCPL's expanded investment authority. The intention is to update this policy every two years and, to this end, the Investment Committee has been working diligently over the past few months on revisions for the Board's review and approval. While I believe progress has been made, additional clarification and guidance are needed prior to the Board's vote of approval.

Below I outline areas of discussion that require more guidance from the Commissioners.

Audience: The document is a compilation of history, detailed interpretations, and significant financial explanations. This patchwork of information begs the question of "who" is the primary audience for this policy. My concern is that rather than overspecify policy and dilute the purpose, we focus on setting clear investment guidance. Clarity around the intended audience will drive more relevant, succinct information.

Governance: There is minimal detail outlined in law about BCPL's governance structure. This includes roles and responsibilities of key agency staff and the investment committee. I believe it is important to discuss and agree on these and other key aspects of our governance structure moving forward.

Fiduciary Responsibility: In current statutes, under § 24.61 (1), "[t]he board shall loan or invest moneys belonging to the trust funds as those moneys accumulate in the treasury." Subsequent provisions under (2) and (3) detail how the board must make said investments and loans. For example, under § 24.61 (2) (a), the board must manage funds "in good faith and with the care an ordinary prudent person in a like position would exercise under similar circumstances, in accordance with s. 112.11 (3)." We have a fiduciary responsibility as Commissioners, and I want to ensure we are unified in our understanding and fulfillment of these responsibilities. I asked the Legislative Reference Bureau (LRB) to explain our fiduciary duties as outlined in law, and I attach their memo for your review. It is my hope the LRB memo can serve as a guide for how we think about our fiduciary duties moving forward.

Permitted Investments: The intent of this section is to set succinct parameters around permitted investments that collectively implement the BCPL's investment strategy which is outlined in the asset allocation for each fund. It is important investments are clearly codified and the investments selected are reflected in the asset allocation. I do not believe the Permitted Investments section clearly captures how our investment types support our strategy. For example, a significant part of our portfolio is the BCPL State Trust Fund Loan Program. This investment type is captured in our asset allocation but is not listed as a permitted investment.

Further, this section is inconsistent with how asset types are grouped giving the appearance that some assets have a more significant role in the portfolio than others. For example, absolute returns is listed as a separate, independent asset class but has a minimal role in our portfolio while equities is also a separate asset class but has a significant role in the portfolio. This section is an important part of the overall policy because it informs how the BCPL can invest.

I appreciate your attention to these matters and look forward to our discussion on Tuesday.

Richard A. Champagne, Chief
Legal 608.504.5801 • Research 608.504.5802

One East Main Street, Suite 200
Madison, WI 53703 • http://legis.wisconsin.gov/lrb

MEMORANDUM

TO: Office of the State Treasurer

FROM: Jillian Slaight, legislative analyst

DATE: October 25, 2019

SUBJECT: Fiduciary duties of the BCPL

Background

The board of commissioners of public lands was created by Article X, section 7, of the Wisconsin Constitution. Article X, section 8 provides for the sale of public lands by the board, and finally, Article X, section 2, section 5, and section 6, provide for the proceeds from the sale of lands to be applied toward educational purposes. The funds for which the board serves as trustee are described under Chapter 24, subchapter II, of the Wisconsin Statutes, and include, per § 24.60 (5), the common school fund, normal school fund, university fund, and agricultural college fund.

Fiduciary duties

Per Article X, section 8, of the Wisconsin Constitution, "The commissioners . . . shall invest all moneys arising from the sale of such lands, as well as all other university and school funds, *in such manner as the legislature shall provide*" (emphasis added). In other words, statutes specify the manner in which the commissioners must invest these moneys, beyond requirements set forth in the Constitution.[1] Over time, the legislature has alternately limited and broadened the board's ability to invest these moneys, depending on attitudes toward the board and related trust funds.[2]

In current statutes, under § 24.61 (1), "The board shall loan or invest moneys belonging to the trust funds as those moneys accumulate in the treasury." Subsequent provisions under (2) and (3) detail how the board must make said investments and loans. For example, under § 24.61 (2) (a), the board

[1] Per the following Legislative Council brief, the Legislature's approach to the board has changed over time. Additionally, attorneys general and the Wisconsin Supreme Court have also weighed in on the board's duties, with the latter finding in one case "that certain of the Legislature's investment directions violated the fiduciary duties required by the Wisconsin Constitution." See Wisconsin Legislative Council, "Staff Brief: Study Committee on the Investment and Use of the School Trust Funds," August 7, 2018: 9–11.

[2] I recommend consulting the brief cited above for a concise synopsis of legislation pertaining to the board and how it may invest moneys in these funds. This section is succeeded by a description of recent legislation (pp. 11–12), and board policy as of 2016 (pp. 13–15).

must manage funds "in good faith and with the care an ordinary prudent person in a like position would exercise under similar circumstances, in accordance with s. 112.11 (3)." This provision of Chapter 112 relates to the standard of conduct in managing and investment an institutional fund, and reads as follows:

(a) Subject to the intent of a donor expressed in a gift instrument, an institution, in managing and investing an institutional fund, shall consider the charitable purposes of the institution and the purposes of the institutional fund.

(b) In addition to complying with the duty of loyalty imposed by law other than this section, each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

(c) In managing and investing an institutional fund, an institution:

1. May incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the institution, and the skills available to the institution.

2. Shall make a reasonable effort to verify facts relevant to the management and investment of the fund.

(d) An institution may pool 2 or more institutional funds for purposes of management and investment.

(e) Except as otherwise provided by a gift instrument, the following rules apply:

1. In managing and investing an institutional fund, the following factors, if relevant, shall be considered:

a. General economic conditions.

b. The possible effect of inflation or deflation.

c. The expected tax consequences, if any, of investment decisions or strategies.

d. The role that each investment or course of action plays within the overall investment portfolio of the fund.

e. The expected total return from income and the appreciation of investments.

f. Other resources of the institution.

g. The needs of the institution and the fund to make distributions and to preserve capital.

h. An asset's special relationship or special value, if any, to the charitable purposes of the institution.

2. Management and investment decisions about an individual asset shall not be made in isolation but rather in the context of the institutional fund's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.

3. Except as otherwise provided by law other than this section, an institution may invest in any kind of property or type of investment consistent with this section.

4. An institution shall diversify the investments of an institutional fund unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.

5. Within a reasonable time after receiving property, an institution shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the institutional fund into compliance with the purposes, terms, and distribution requirements of the institution as necessary to meet other circumstances of the institution and the requirements of this section.

6. A person that has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing institutional funds.

In addition to requirements of authorized investments and loans under § 24.61, requirements relating to terms, amounts, and interest rates of loans are specified under § 24.63. Requirements pertaining to specific trust funds exist under §§ 24.76 to 24.82.

Beyond these statutory provisions, common law also shapes the responsibilities of the board as trustee of these funds. The board's common law duties are summarized succinctly in materials associated with the 2018 Legislative Council Study Committee on the Investment and Use of the School Trust Funds. According to LC's brief on this subject, those duties include the following:

(a) Demonstrating undivided loyalty to the beneficiaries;

(b) Delegating trustee duties to other parties only when reasonable;

(c) Exercising reasonable care and skill in managing the trust;

(d) Preserving trust property; and

(e) Making trust property productive.[3]

Conclusion

I hope this information is helpful. If you have additional questions, please feel free to contact me at Jillian.Slaight@legis.wisconsin.gov, or our drafting attorney in this area, Eric Mueller, at Eric.Mueller@legis.wisconsin.gov.

[3] Legislative Council, "Staff Brief: Study Committee on the Investment and Use of the School Trust Funds," August 7, 2018: 9.

BOARD OF COMMISSIONERS OF PUBLIC LANDS 1848

Managing Wisconsin's trust assets for public education.

Memorandum

Date: November 8, 2019

To: State Treasurer Godlewski, Secretary of State La Follette, Attorney General Kaul
From: Richard Sneider- BCPL Chief Investment Officer
Cc: Jonathan Barry, Tom German

RE: Summary of Revisions to Investment Policy Statements

The next meeting of the BCPL Board scheduled for November 12th will include a discussion of amended Investment Policy Statements (IPS) for BCPL-managed Trust Funds. I thought it may be helpful to provide an overview of the changes included in the amended IPS. I have also attached the IPS addendums, which were inadvertently not included in board packet copy of the IPS.

The impetus for this revision was three-fold:

1. Changes in financial market conditions require a periodic review of asset allocations, strategies and procedures described and governed within the IPS.
2. The smoothing funds created for the Common School Fund (CSF) and Normal School Fund (NSF) have been filled, which triggered a change in the calculation of beneficiary distributions.
3. The shift to State of Wisconsin GPR funding of BCPL expenses permits a shift in asset allocations because a portion of investment returns are no longer required to fund those expenses. This change has a significant impact on the NSF allocation, which has been 100% invested in fixed income securities to deliver funds necessary to fund timber and land management.

Most of the document remains as originally approved by the Board. There has been some minor re-wording, reorganization, and clarifications made throughout the document, but the revision has focused on three sections:

1. Smoothing Fund and Annual Distribution (p. 17-18) – Language removed detailing the flow of funds prior to the filling of the smoothing funds. Clarifications made to distribution calculation.
2. CSF Investment Objective and Asset Allocation (p. 23-27) – Added analysis of inflation trends and impact on asset allocation for long-term sustainability of inflation-adjusted or 'real' CSF distributions. New asset allocation targets and ranges.
3. NSF Investment Objective and Asset Allocation (p. 29-31) – Added differentiated analysis of inflation trends and impact on NSF allocation, including impact from shift to GPR funding of agency expenses. New asset allocation targets and ranges.

One other change of note would be the addition of the following items to the Investment Philosophy (p. 11-12):

- BCPL shall make reasonable efforts to seek investment opportunities within the State of Wisconsin to the extent practicable and subject to BCPL's fiduciary duty to act in the sole interests of the beneficiaries.
- Transparency of investment strategy and processes is an important element in maintaining the confidence and trust of beneficiaries and the public. The BCPL shall strive to provide transparency whenever possible.

I hope this summary was helpful to your review, and I look forward to discussing these revisions.

-End-

CFA Institute

CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® [CFA®] designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, revocation of candidacy in the CFA Program, and revocation of the right to use the CFA designation.

THE CODE OF ETHICS

Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

STANDARDS OF PROFESSIONAL CONDUCT

I. PROFESSIONALISM

A. Knowledge of the Law. Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.

B. Independence and Objectivity. Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

C. Misrepresentation. Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

D. Misconduct. Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

II. INTEGRITY OF CAPITAL MARKETS

A. Material Nonpublic Information. Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.

B. Market Manipulation. Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

III. DUTIES TO CLIENTS

A. Loyalty, Prudence, and Care. Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.

B. Fair Dealing. Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

C. Suitability.

1. When Members and Candidates are in an advisory relationship with a client, they must:
   - **a.** Make a reasonable inquiry into a client's or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
   - **b.** Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
   - **c.** Judge the suitability of investments in the context of the client's total portfolio.
2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.

D. Performance Presentation. When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

E. Preservation of Confidentiality. Members and Candidates must keep information about current, former, and prospective clients confidential unless:

1. The information concerns illegal activities on the part of the client or prospective client,
2. Disclosure is required by law, or
3. The client or prospective client permits disclosure of the information.

IV. DUTIES TO EMPLOYERS

A. Loyalty. In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

B. Additional Compensation Arrangements. Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest with their employer's interest unless they obtain written consent from all parties involved.

C. Responsibilities of Supervisors. Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.

V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

A. Diligence and Reasonable Basis. Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

B. Communication with Clients and Prospective Clients. Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Disclose to clients and prospective clients significant limitations and risks associated with the investment process.
3. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
4. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

C. Record Retention. Members and Candidates must develop and maintain appropriate records to support their investment analyses, recommendations, actions, and other investment-related communications with clients and prospective clients.

VI. CONFLICTS OF INTEREST

A. Disclosure of Conflicts. Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

B. Priority of Transactions. Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

C. Referral Fees. Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services.

VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

A. Conduct as Participants in CFA Institute Programs. Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA Institute programs.

B. Reference to CFA Institute, the CFA Designation, and the CFA Program. When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.

CFA Institute

ASSET MANAGER CODE OF PROFESSIONAL CONDUCT

The Asset Manager Code of Professional Conduct outlines the ethical and professional responsibilities of firms ("Managers") that manage assets on behalf of clients. By adopting and enforcing a code of conduct for their organizations, Managers demonstrate their commitment to ethical behavior and the protection of investors' interests.

GENERAL PRINCIPLES OF CONDUCT

Managers have the following responsibilities to their clients.
Managers must:

1. Act in a professional and ethical manner at all times.
2. Act for the benefit of clients.
3. Act with independence and objectivity.
4. Act with skill, competence, and diligence.
5. Communicate with clients in a timely and accurate manner.
6. Uphold the applicable rules governing capital markets.

ASSET MANAGER CODE OF PROFESSIONAL CONDUCT

A. LOYALTY TO CLIENTS

Managers must:

1. Place client interests before their own.
2. Preserve the confidentiality of information communicated by clients within the scope of the Manager–client relationship.
3. Refuse to participate in any business relationship or accept any gift that could reasonably be expected to affect their independence, objectivity, or loyalty to clients.

B. INVESTMENT PROCESS AND ACTIONS

Managers must:

1. Use reasonable care and prudent judgment when managing client assets.
2. Not engage in practices designed to distort prices or artificially inflate trading volume with the intent to mislead market participants.
3. Deal fairly and objectively with all clients when providing investment information, making investment recommendations, or taking investment action.
4. Have a reasonable and adequate basis for investment decisions.
5. When managing a portfolio or pooled fund according to a specific mandate, strategy, or style:
   a. Take only investment actions that are consistent with the stated objectives and constraints of that portfolio or fund.
   b. Provide adequate disclosures and information so investors can consider whether any proposed changes in the investment style or strategy meet their investment needs.
6. When managing separate accounts and before providing investment advice or taking investment action on behalf of the client:
   a. Evaluate and understand the client's investment objectives, tolerance for risk, time horizon, liquidity needs, financial constraints, any unique circumstances (including tax considerations, legal or regulatory constraints, etc.) and any other relevant information that would affect investment policy.
   b. Determine that an investment is suitable to a client's financial situation.

C. TRADING

Managers must:

1. Not act or cause others to act on material nonpublic information that could affect the value of a publicly traded investment.
2. Give priority to investments made on behalf of the client over those that benefit the Managers' own interests.
3. Use commissions generated from client trades to pay for only investment-related products or services that directly assist the Manager in its investment decision making process, and not in the management of the firm.
4. Maximize client portfolio value by seeking best execution for all client transactions.
5. Establish policies to ensure fair and equitable trade allocation among client accounts.

D. RISK MANAGEMENT, COMPLIANCE, AND SUPPORT

Managers must:

1. Develop and maintain policies and procedures to ensure that their activities comply with the provisions of this Code and all applicable legal and regulatory requirements.
2. Appoint a compliance officer responsible for administering the policies and procedures and for investigating complaints regarding the conduct of the Manager or its personnel.
3. Ensure that portfolio information provided to clients by the Manager is accurate and complete and arrange for independent third-party confirmation or review of such information.
4. Maintain records for an appropriate period of time in an easily accessible format.
5. Employ qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions.
6. Establish a business-continuity plan to address disaster recovery or periodic disruptions of the financial markets.
7. Establish a firmwide risk management process that identifies, measures, and manages the risk position of the Manager and its investments, including the sources, nature, and degree of risk exposure.

E. PERFORMANCE AND VALUATION

Managers must:

1. Present performance information that is fair, accurate, relevant, timely, and complete. Managers must not misrepresent the performance of individual portfolios or of their firm.
2. Use fair-market prices to value client holdings and apply, in good faith, methods to determine the fair value of any securities for which no independent, third-party market quotation is readily available.

F. DISCLOSURES

Managers must:

1. Communicate with clients on an ongoing and timely basis.
2. Ensure that disclosures are truthful, accurate, complete, and understandable and are presented in a format that communicates the information effectively.
3. Include any material facts when making disclosures or providing information to clients regarding themselves, their personnel, investments, or the investment process.
4. Disclose the following:
   a. Conflicts of interests generated by any relationships with brokers or other entities, other client accounts, fee structures, or other matters.
   b. Regulatory or disciplinary action taken against the Manager or its personnel related to professional conduct.
   c. The investment process, including information regarding lock-up periods, strategies, risk factors, and use of derivatives and leverage.
   d. Management fees and other investment costs charged to investors, including what costs are included in the fees and the methodologies for determining fees and costs.
   e. The amount of any soft or bundled commissions, the goods and/or services received in return, and how those goods and/or services benefit the client.
   f. The performance of clients' investments on a regular and timely basis.
   g. Valuation methods used to make investment decisions and value client holdings.
   h. Shareholder voting policies.
   i. Trade allocation policies.
   j. Results of the review or audit of the fund or account.
   k. Significant personnel or organizational changes that have occurred at the Manager.
   l. Risk management processes.

NOTIFICATION OF COMPLIANCE

Managers must notify CFA Institute of their claim of compliance through the Asset Manager Code of Professional Conduct claim of compliance form at www.cfainstitute.org/assetcode. This form is for communication and information-gathering purposes only and does not represent that CFA Institute engages in enforcement or quality control of an organization's claim of compliance. CFA Institute does not verify either the Manager's claim of compliance or actual compliance with the Code.

For additional information on complying, please visit www.cfainstitute.org/assetcode.

State of Wisconsin - Office of the State Treasurer

Office of the State Treasurer
Madison, WI
Email: treasurer@wi.gov
Phone: 608-266-1714

Sarah Godlewski
State Treasurer

MEMORANDUM

DATE: October 31, 2019

TO: Attorney General Josh Kaul and Secretary of State Doug La Follette

FROM: Treasurer Sarah Godlewski, Chair of the Board of Commissioners of Public Lands

CC: Jonathan Barry, Executive Secretary of the Board of Commissioners of Public Lands

SUBJECT: DRAFT 2020-2022 Goals and Priorities

Goals & Priorities

1. Investments

Build a comprehensive investment program that ensures strong returns for our beneficiaries while embracing the agency's history of investing in Wisconsin.

Priorities:

- **A. Create a School Trust Fund Investment Performance Scorecard & Annual Report**
- **B. Establish a Due Diligence Protocol For Investments**
- **C. Establish a Wisconsin Impact Advisor Group**
- **D. Expand the Membership of the Investment Committee**
- **E. Execute the Asset Allocation and Develop Clear Timeline**

2. Operations

Update BCPL's operations to meet its evolving role and to best serve beneficiaries and stakeholders

Priorities:

- **A. Develop a BCPL Strategic Plan and Supporting Metrics**
- **B. Update BCPL Budget & Personnel Staffing Plan**
- **C. Improve the Agency's Outreach, Communication, and Branding**
- **D. Create a Government Relations Approach**

3. Lands

Develop and implement a land strategy the upholds the BCPL's work to land stewardship agency.

Priorities:

- **A. Create an approach that reduces unproductive lands**
- **B. Complete a financial analysis on BCPL land holdings**

State of Wisconsin - Office of the State Treasurer

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Sarah Godlewski
State Treasurer

MEMORANDUM

DATE: October 31, 2019

TO: Attorney General Josh Kaul and Secretary of State Doug La Follette

FROM: Treasurer Sarah Godlewski, Chair of the Board of Commissioners of Public Lands

CC: Jonathan Barry, Executive Secretary of the Board of Commissioners of Public Lands

SUBJECT: DRAFT Position Description for the Executive Secretary

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Job Summary

The Executive Secretary is responsible for providing strategic, financial, and operational leadership for the Board of Commissioners of Public Lands (BCPL). This position is the cornerstone of the BCPL as it's an appointment that works on behalf of the Board. The Executive Secretary ensures the successful management and execution of the school trust assets worth over $1 billion, the agency's lands, and administrative and executive duties. The ideal candidate is a demonstrated leader with a strong skill set in running complex organizations and has a strong background in financial management and state government.

Executive Secretary and State Statutes

Chapter 24 of the Wisconsin state statutes outline only a few responsibilities for the Executive Secretary. These limited responsibilities revolve around lands management, which was important in the 19th and 20th centuries. These responsibilities include collections from land purchasers for every certificate or patent issued by the land, the executive secretary "may take the acknowledgments of the board to all certificates and patents, and no fees may be charged therefor." The BCPL must give to applicants who wish to purchase public lands at private sale "a memorandum signed by the executive secretary of the board, stating the application, describing the lot or tract applied for, and stating the price at which the lot or tract may be sold and the amount to be paid at the time of the sale." Land appraisals are also filed with the executive secretary and recorded.

In addition to what is captured in statute, it is important that the Executive Secretary has the skills and abilities to meet the agency's evolving role. Today, beyond land management, the BCPL is a significant investment organization - responsible for the management of the School Trust Assets worth over $1 billion dollars that benefit Wisconsin's public schools. The Essential Job Duties captured below highlight the competencies for a successful Executive Secretary.

Essential Job Duties

Office of the State Treasurer
Madison, WI
Email: treasurer@wi.gov
Phone: 608-266-1714

Sarah Godlewski
State Treasurer

Competency: Leadership & Operational Excellence

- **BCPL Strategy & Performance:** Work with the Board to develop and implement an agency strategy and supporting metrics that optimizes the agency's performance by focusing on priorities and outcomes.
- **Optimize the Agency's Evolving Operations:** Create and implement procedures, staffing plans, and budgets that will improve the Agency's operations and effectiveness to best meet its current and developing role for the state of Wisconsin.
- **Trusted Adviser:** Serve as a trusted advisor to the Board by providing advice and insight and effectively keeping the Board apprised of agency activity.
- **Public & Government Affairs:** Develop and implement the BCPL's legislative and public affairs approaches that improve the understanding of BCPL's value while increasing visibility and branding.
- **Outreach & Stakeholder Management**: Develop strong relationships with key constituencies and beneficiaries across the state.
- **People Management:** Empower the BCPL staff to best fulfill their positions through effective management strategies and tools that foster a collaborative and communicative culture.

Competency: Financial Administration

- **Investment Oversight:** Provide oversight of the investment management process, including formulating, recommending and implementing of policies, asset allocation and written procedures (e.g. due diligence, internal controls, etc) for the investment of School Trust Assets. Further, ensure BCPL has strong compliance policies and can effectively evaluate and minimize risk.
- **Investment Strategy**: Work with the CIO and Investment Committee to generate and implement a modernized investment strategy that includes investment criteria that ensures asset diversification and strong financial returns for the beneficiaries while embracing the agency's history of investing in Wisconsin. Develop and implement Key Performance Indicators for the portfolio that provide transparency and accountability.
- **Finance and Investment Network**: Establish relationships within the finance and investment community to ensure the BCPL has access to best-in-case research and information; create a network of advisers to support.
- **Budget Administration:** Oversee the development and submission of the agency's budget. Work with the Commissioners and BCPL team to update budget requirements and devise a plan to advocate for the agency's requested budget.

Competency: Lands Oversight

- **Lands Management:** Work with lands team to generate an effective land strategy that optimize timber sales and overall lands operations while upholding the agency's work to land stewardship.

Other duties as assigned: Serve at the pleasure of the Board

BOARD MEETING
November 12, 2019

AGENDA ITEM 8
CHIEF INVESTMENT OFFICER'S REPORT – OCTOBER

At the end of October, the Federal Reserve acted to reduce short-term interest rates for the third time in 2019. Market sentiment is that the Fed will now pause and hold rates steady until additional data provides conviction and direction regarding economic trends.

Cash reserves held by BCPL-managed trust funds are currently invested in the State Investment Fund (SIF), which invests deposits in short term securities in accordance their investment policy. The State Investment Fund offers next day availability with competitive yields. Following market conditions including a steep decline in interest rates drop since June, the yield earned on cash reserves had fallen to around 2.2% in September. SIF yields are expected to drop well below 2% in coming months as current investments reach their maturity with proceeds reinvested at current rates. This drop will have an impact on distributable earnings in 2020.

On the heels of this decline in market interest rates, BCPL experienced significant redemptions in bond investments that increased cash levels to over $400 million. Reinvestment of this capital has been difficult because of high valuations in risk assets, low long-term yields in the fixed income market, and growing concerns regarding the health of the economy.

Staff has continued to invest in public equities on a weekly basis. This strategy increases the amount of distributable income to beneficiaries because the current dividend yield on the selected ETFs remains higher than the current yield on cash. The long investment horizon available to the permanent Common School Fund (CSF) reduces some concerns about buying at the top of the market, but we remain cautious and methodical in our approach.

BCPL has recently made significant commitments to the real estate asset class, and these commitments should be funded over the next few quarters. We believe that real estate will become an increasingly important element in our investment portfolio as we move forward, with expectations that real estate investments will of increase yields to benefit current beneficiaries and provide long-term capital gains to support future beneficiaries.

Additional asset classes with investment potential include high-yield corporate bonds. There are several ETFs that offer low-cost management strategies providing excellent diversification and yields in the 5% range. Staff believes that the next recession (when it comes) will likely be relatively short and shallow. This belief, along with the ability to diversify risks across companies and industries when using ETFs, helps reduce staff concerns about the potential for an increase in corporate bond default rates. Should the Board approve the new Investment Policy and Asset Allocation, the appropriate investment strategy for this asset class would be to implement a methodical approach similar to that used for public equities.

<u>Attachments</u>
1. Investment Transaction Report
2. Month-End Portfolio Report - Public Bonds
3. Month-End Portfolio Report - Public Equities

BOARD MEETING
November 12, 2019

AGENDA ITEM 8

Investment Transaction Report - October 2019

Transactions during the month of October 2019 are as follows. Outstanding commitments are as of the end of the month:

Fixed Income

Bonds	
Purchases	None
Sales	None
Redemptions	$1,115,000
Trust Fund Loans	
Monthly Board Approvals	$3.4 million
Monthly Disbursements	$4.1 million
Redemptions	None
Outstanding Commitments	$34.0 million

Equities and Alternatives

Public Equities	
Purchases	$5.0 million
Sales	None
Real Estate/Infrastructure[1]	
Monthly Funding	None
Outstanding Commitments	$120.0 million
Private Equity/Venture Capital[2]	
Monthly Funding	None
Outstanding Commitments	$27.3 million

Cash Balance	$400.0 million

[1] All outstanding commitments have been approved by the Investment Committee and are awaiting document review and execution.

[2] Outstanding commitments include $30 million in prior commitments less amounts called to date, along with $7.5 million approved by the Investment Committee and awaiting document review and execution.

BOARD OF COMMISSIONERS OF PUBLIC LANDS 1848
Managing Wisconsin's trust assets for public education.

BCPL Public Bond Portfolio

As of 10/31/2019

Description	Moody's Rating	S&P Rating	Weight	Expected Yield	Yield to Maturity at Cost	Modified Duration (years)	Cost Basis	Estimated Current Value	Estimated Unrealized Gain (Loss)	Annual Income
Treasury and Agency Securities	Aaa	AA+	6.8%	3.65%	3.66%	12.31	14,972,500	15,172,630	200,130	546,500
Wisconsin and State Agency	Aa2	AA-	50.2%	4.17%	4.21%	9.84	106,539,075	111,684,877	5,145,802	4,623,536
Municipal/School District	Aa3	A+	42.9%	4.07%	4.13%	9.08	90,282,192	95,393,851	5,111,659	3,808,478
	Aa2	AA-	100.0%	4.09%	4.14%	9.68	211,793,767	222,251,358	10,457,591	8,978,515

BOARD OF COMMISSIONERS OF PUBLIC LANDS 1848

Managing Wisconsin's trust assets for public education.

BCPL Public Equity Portfolio

As of 10/31/2019

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	106,541	137.90	14,691,594	154.180	16,426,491	20.0%	1,734,897	11.8%	1.8%	291,922
VYM	Vanguard High Dividend Yield ETF	137,582	83.67	11,511,460	89.660	12,335,602	15.0%	824,142	7.2%	3.1%	385,230
VXF	Vanguard Extended Market	34,947	115.04	4,020,249	118.620	4,145,413	5.0%	125,164	3.1%	1.2%	51,372
VNQ	Vanguard REIT ETF	43,801	81.40	3,565,583	94.300	4,130,434	5.0%	564,852	15.8%	3.3%	137,535
VIG	Vanguard Dividend Appreciation ETF	33,673	106.43	3,583,893	119.610	4,027,628	4.9%	443,734	12.4%	1.8%	71,050
		356,544		37,372,779		41,065,568	50.0%	3,692,789	9.9%	2.3%	937,109
Global Equities											
VEU	Vanguard FTSE All World ex-US ETF	318,420	49.90	15,888,249	51.620	16,436,840	20.0%	548,592	3.5%	3.0%	487,183
VYMI	Vanguard International High Dividend ETF	200,369	60.63	12,148,577	61.350	12,292,638	15.0%	144,062	1.2%	4.3%	526,970
VNQI	Vanguard Global ex-US Real Estate ETF	67,549	57.16	3,860,921	60.900	4,113,734	5.0%	252,813	6.5%	3.6%	148,608
VIGI	Vanguard International Div Appreciation ET	59,491	62.66	3,727,994	68.880	4,097,740	5.0%	369,746	9.9%	1.4%	57,099
SCZ	Ishares MSCI EAFE Small Cap	34,649	56.66	1,963,181	59.580	2,064,387	2.5%	101,207	5.2%	2.7%	55,785
EEMS	Ishares MSCI Emerging Mkt Small Cap	47,031	43.01	2,022,768	43.550	2,048,200	2.5%	25,432	1.3%	2.6%	53,615
		727,509		39,611,688		41,053,540	50.0%	1,441,852	3.6%	3.2%	1,329,261
		1,084,053		76,984,468		82,119,109	100.0%	5,134,641	6.7%	2.8%	2,266,370