

Board Meeting
Minutes
July 19, 2022

Present were:

Sarah Godlewski, Board Chair
Josh Kaul, Commissioner
Tom German, Executive Secretary
Richard Sneider, Chief Investment Officer
Thuy Nguyen, Office Manager
Emma Stutzman, Chief of Staff

State Treasurer
Attorney General
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
State Treasurer

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 12:31 p.m.

ITEM 2. APPROVE MINUTES – July 5, 2022

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

DISCUSSION: None

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 shared that there are a couple of loans financing development incentives and are for constructing new town halls. He offered to send specifics on the economic development projects to the commissioners, if needed.

Executive Secretary German shared that if anyone is heading to BCPL's northern office, you can see the new Newbold Town Hall on Hwy 47 which was financed by the State Trust Fund Loan Program.

VOTE: The motion passed 2-0

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$6,375,245.00** in State Trust Fund Loans to support **6** community projects in Wisconsin.

1. Village of Webster / Burnett County / Finance Alterations to Village Hall / \$209,000.00
2. City of Saint Francis / Milwaukee County / Finance TID development incentive / \$4,000,000.00
3. City of Port Washington / Ozaukee County / Finance pass-through loan for TID #2 project / \$87,960.00
4. Town of Newbold / Oneida County / Finance construction of Town Hall / \$1,500,000.00
5. Town of Lawrence / Brown County / Finance purchase of fire truck / \$290,000.00
6. Town of Long Lake / Washburn County / Finance new Fire and Ambulance Hall / \$288,285.00

ITEM 4. OLD BUSINESS – Discussion on investments in firearm companies

Mr. Sneider shared that BCPL does not have any investments directly in any gun manufacturers or retailers. However, we do have about \$90,000 indirectly invested in gun manufacturers through larger Exchange Traded Funds (ETFs). That is about one in every 15,000 of Common School Fund dollars. If you laid out 155 \$1.00 bills, we would have one penny invested in gun manufacturers. If you include gun retailers, the total indirectly invested in manufacturers and retailers is about \$1.1 million with about 88% of that coming from an indirect investment in Walmart again as a result of our investment in a larger ETF. He believes about half of Walmart stores currently retail guns.

Commissioner Kaul raised the question of corporate behavior at the last board meeting. Mr. Sneider explained that the evidence appears to be clear that ESG investing that excludes portfolio investments in specific companies or industries based on ESG criteria does not have any impact on corporate behavior. Also, there is little evidence that ESG funds affect firm behavior because ESG funds primarily try to achieve their objective through portfolio selection, where changing the behavior of a firm is not the primary goal. Fund investments in green companies are often meant to attract investor capital that boost fund manager compensation without the need to change corporate policy.

Another point brought up by Commissioner Kaul at the last meeting was a potential conflict between fiduciary duty and ESG investing. Mr. Sneider described a study published by Stanford Law Review in 2020, written by professors from Northwestern and Harvard. The study provides an excellent review of this topic. The conclusion was that ESG investing is permissible under American Trust Fiduciary Law if two conditions are satisfied: First, the trustee must reasonably conclude that ESG investing will benefit the beneficiary directly by improving risk adjusted returns; and second, the trustee's exclusive motive for ESG investing is to obtain that direct benefit. They also clarified that this rule may be tempered by considering the purpose of a charitable endowment using the example of whether a distribution would be permissible under similar circumstances. They discuss the duty of prudence and that it is an important part of trust law. It is possible that ESG funds can provide a similar risk adjusted rate of return to passively manage funds, but risk adjusted returns of a portfolio can only be improved if those factors are not already reflected in market prices. An active investment strategy based on ESG factors can only profit if the market consistently misprices them. Most empirical studies find that on a risk adjusted basis, employing ESG screens leads to performance about the same or slightly worse than benchmark indices.

Mr. Sneider shared that he analyzed 20 large ESG funds and found that none had solely excluded gun manufacturers and retailers. He compared those ESG funds to funds we currently own and found that ESG funds had higher management fees. The current average fee on the four BCPL-owned ETFs with exposure to guns is about 5 basis points. The average fee on the 20 gun-free funds is about 19 basis points and the yields were lower. If you moved some or all of our funds that are invested in broad market ETFs to a fund that excluded companies that have exposure to ESG factors, we would likely be overweighting our portfolio with high tech companies because tech companies are more likely to pass ESG screens. Many of these funds are market value weighted, so you are tilting the portfolio quite substantially to big tech. Big tech firms generally do not pay dividends. One of our mandates is to develop a diversified stream of income for our beneficiaries. We have about \$110 million invested in the four ETFs that have exposure to guns. If we move those to the lowest cost alternative ESG fund, our fees would increase by about \$45,000, but annual distributions would go down by about \$1 million because funds that do have ESG screens tend to have lower distributable yields. Currently, our fees for EFTs total about \$360,000.

Mr. Sneider commented that he has started to explore the idea of a separately managed account but more research on this potential avenue is needed. If we hired an asset manager to manage our funds on a passive basis, we could potentially tilt that fund towards dividends, value, or whatever aspects we thought would be most important for our beneficiaries. We would have more flexibility but still be able to create a fund that produced both the distributable income to our beneficiaries and the potential for capital gains. Initial discussions with a firm that does this type of business indicated that the cost of management would be between 10 and 20 basis points, so our management cost would go up slightly. Our average overall ETFs right now cost us about 14 basis points. If their pricing came in about 15 basis points, our fees might go up a little bit but we would be able to get a portfolio that would meet the criteria that would be more appealing to our beneficiaries. The Investment Committee determined that because of these factors it may not be the best solution to move

the funds from the current investments to an ESG Mutual Fund or ETF but it would be worth exploring a separately managed account.

Board Chair Godlewski emphasized that this discussion did not originate from concern about corporate or investor activism. It stemmed from thinking about what is in the best interest of our beneficiaries and our fiduciary responsibility. She has met with the President and representatives of the Wisconsin Educational Media & Technology Association (WEMTA) as well as the President of the American Federation of Teachers (AFT). Both very much appreciate the potential of looking at a separately managed account.

Executive Secretary German stated that BCPL has tried to manage its trust assets in order to provide our beneficiaries with a strong and stable stream of earnings distributions, while still growing the fund at a rate equal to or greater than the rate of inflation. Incorporating a separately managed account may allow for a portfolio that is more precise in what types of stocks we'd prefer and what we'd like to avoid. It would be the same asset class as the ETFs but more focused. In order to make a decision, we need to determine which entities are best, the best way of choosing the provider and the cost of such a strategy. Mr. Sneider and the investment committee are compiling and reviewing information on this and will be sharing it with the board when they've gathered the necessary information.

Commissioner Kaul shared that he is leery of identifying particular types of investments to omit because there may be many potential areas where we may be skeptical of investing for one reason or another. The more investments that are ruled out, the more we risk having our returns impacted. It makes sense to get input from our beneficiaries. He asked if there is a way to formalize the input received from our beneficiaries. He asked for clarification on who our beneficiaries are. Can BCPL staff figure out a way to get formal input from our beneficiaries?

Executive Secretary German commented that while putting together the investment policy, the investment committee thought specifically about our beneficiaries and tried to ensure that we communicated with the different stakeholders: i.e., WEMTA, DPI and school boards.

Board Chair Godlewski shared that she has frequent communication with our stakeholders, i.e., WEMTA, Dr. Underly from DPI, AFT and WEAC. The investment committee's next step is to figure out what the cost and structure of a separately managed account would look like. She believes it makes sense to explore that option.

Commissioner Kaul asked about coming up with a formal process to solicit input from stakeholders.

Board Chair Godlewski shared that the next step could be having the stakeholders attend an investment committee meeting as to not burden BCPL staff with additional work.

ITEMS 5. NEW BUSINESS – WPS Easement

Executive Secretary German described the WPS easement as a simple utility easement over a very short stretch of BCPL land. It would encumber less than 1/10 of an acre. BCPL has determined that a \$500 fee would be reasonable, full, and fair consideration for the easement.

MOTION: Commissioner Kaul moved to approve the easement authorizing staff to finalize and execute the WPS easement; Board Chair Godlewski seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 2-0

ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT

None

Mr. Sneider stated he will be providing the quarterly investment summary at the next board meeting.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German thanked Board Chair Godlewski for opening the door for more conversations with the Forest Service. Atty. Vince Vukelich of the Forest Service has been responsive and BCPL is hopeful that the transaction will move forward. Updates on progress will be shared as developments come about.

ITEM 8. BOARD CHAIR'S REPORT

Board Chair Godlewski shared that she has had good conversations with our beneficiaries. Her office has been highlighting some of the infrastructure projects that were helped financed through the State Trust Fund Loan Program calling July Infrastructure Month. She has shared the great work that BCPL has and is doing with people who are not aware of what BCPL does and has received positive feedback.

ITEM 9. FUTURE AGENDA ITEMS

None

ITEM 10. ADJOURN

Board Chair Godlewski moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 2-0; the meeting adjourned at 2:26 p.m.

A handwritten signature in black ink, appearing to read "Thomas P. German", written over a horizontal line.

Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2022/2022-07-19 BoardMtgRecording.mp3>