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Thomas P. German, *Executive Secretary*

AGENDA

November 15, 2022

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 – November 1, 2022 (Attachment)
3. Approve Loans

Old Business:

4. None

New Business:

5. None

Routine Business:

6. Chief Investment Officer's Report
7. Executive Secretary's Report
8. Board Chair's Report
9. Future Agenda Items
10. Adjourn

AUDIO ACCESS INFORMATION

Conference Line Number: **(608) 571-2209**
Conference ID Code: **790 694 843#**

Board Meeting
Minutes
November 1, 2022

Present were:

- | | |
|---|--|
| Doug LaFollette, Commissioner | Secretary of State |
| Josh Kaul, Commissioner | Attorney General |
| Tom German, Executive Secretary | Board of Commissioners of Public Lands |
| Richard Sneider, Chief Investment Officer | Board of Commissioners of Public Lands |
| Denise Nechvatal, Senior Accountant | Board of Commissioners of Public Lands |
| Mike Krueger, IT Manager | Board of Commissioners of Public Lands |
| Thuy Nguyen, Office Manager | Board of Commissioners of Public Lands |

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 2:05 p.m.

ITEM 2. APPROVE MINUTES – October 18, 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 commented that loan #1 to The City Sun Prairie is to finance street construction and development incentives. Loan #2 is to the Town of Liberty Grove in Door County. Liberty Grove is one of a number of towns in Door County looking to finance fiber to home. Their loan finances an engineering study to look at the feasibility of that particular project. The City of Seymour is refinancing a note for a land purchase.

Executive Secretary German shared that he believes that the City of Seymour is using the funds for a development and the city is treating the land purchase as a land contract obligation.

Mr. Sneider further explained that the couple selling the land to the City of Seymour asked that payment for the land be made over a period of time, so they have structured it as a note.

(Commissioner LaFollette joined the meeting.)

VOTE: The motion passed 3-0

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$2,529,000.00** in State Trust Fund Loans to support **3** community projects in Wisconsin.

1. City of Sun Prairie / Dane County / Finance street construction and development incentives / \$1,804,000.00
2. Town of Liberty Grove / Door County / Finance Broadband Engineering Study / \$500,000.00

3. City of Seymour / Outagamie County / Refinance note on land purchase / \$225,000.00

ITEM 4. OLD BUSINESS

None

ITEM 5. NEW BUSINESS – QUARTERLY INVESTMENT REPORT

Mr. Sneider reported that financial markets remained extremely volatile and in the third quarter. Our fund value declined by around 3%. When looking at how the market performed, we did OK. The decline in asset prices failed to impact our distributable income. The investment policy and diversification plan approved by the board and implemented by the investment committee over the last several years is starting to hit its stride. In 2021 we distributed a record regular distribution amount of \$40.6 million. A few weeks ago, we announced that the Common School Fund distribution next year would increase another 28% to a total of \$52 million.

This is the first time that this report has shown a projected annual income over 60 million but we have to be careful how this number is used. This is a projection based on a snapshot in time and markets can change pretty fast. Our development of income streams from several different asset classes has helped to insulate distributable income from market fluctuations. That is the primary reason for this increase in projected distributions. We believe that the higher yields and lower volatility available in private investment funds will continue to create momentum as another \$70 million in commitments are funded over the next 6 to 12 months.

We expect another \$110 million to be called into our private fund commitments. With cash reserves lower than \$60 million, we wanted to raise liquidity to meet these commitments, while also reducing portfolio risk and bringing our allocations closer to their targets. One part of our plan included the prudent sale of about 50% of the current overweight in both taxable state municipal bonds and corporate bonds. The strategy with state municipal bonds was to sell individual bonds that have lower coupons and shorter maturities. The strategy had three important effects. By selling bonds with shorter maturities, we reduce potential losses because these assets would be priced near par. By selling bonds with lower yields, we increased the average yield on the remaining bond portfolio and we currently have the potential to reinvest these funds into other fixed income assets, including state trust fund loans that pay significantly higher coupons than the bonds elected to be sold. Minor losses would quickly be made-up from higher interest payments received on new assets. We completed transactions about \$12 million late last week.

We also decided to sell 50% of the current overweight to corporate bonds, which amounted to about \$40 million. Our corporate bond assets are invested through ETF's and include high yield bonds, which is an asset class that is not expected to perform well over the short to medium term. These sales transactions were completed yesterday. In addition, we sold all shares in our passively managed real estate ETF's, part of the Common School Fund domestic equity portfolio.

The next step will likely include our initial commitments to the infrastructure asset class over the next few weeks and months. The investment committee has been looking quite closely at several private infrastructure funds. Infrastructure is expected to add yet one more asset class that will provide good yields with stable growth. Infrastructure also includes strong protections against inflation and a low correlation with other asset classes.

ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT

None

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German thanked the board for pulling together to get us to this point. In 2015, we invested only in

fixed income and to get to where we are with no additional budget, no additional staff and utilizing only the skill sets of the people here and our resources more effectively has been an amazing, transformative journey. Also, with the encouragement of the board to get us across the hurdle of getting outside counsel to help us get into the private investment funds has put us where we are today. We are poised to make record distributions, not only this coming year but in the years to come.

We closed the transaction with the Lac du Flambeau today. Executive Secretary German thanked the board and staff for making that transaction a reality. Micah Zeitler, our real estate specialist, was integral to getting BCPL to this point. A former employee of BCPL, Randy Bixby, who was our archivist, had done a lot of the research over the years making it easier to put together the complicated story into a palatable, understandable narrative for the transaction. It was a great transaction and it feels wonderful to have that done.

Lastly, it appears that the US Forest Service are talking seriously about getting the transaction closed in the month of November. He does not have a firm date yet, but we are starting to see documents being circulated that would be executed. This transaction is important to us for a number of reasons. It cleans up a lot of our in-holdings so that we would have less boundary line work. It provides timber harvesting opportunities and it also provides opportunities for carbon credit sales. He shared that he will be contacting Commissioners for signatures hopefully sometime this month.

ITEM 8. BOARD CHAIR'S REPORT

Board Chair Godlewski shared that she met with the with Dr. Jill Underley, Superintendent of Public Instruction. We talked about our note-worthy distribution for this upcoming year. The fund has increased by 28% which will be providing a distribution of \$52 million. Schools are thrilled to know that this is coming, and so we are going to make a formal announcement about this on November 17th. Emma from my office has been working with each commissioner's point of contact. We will be formally announcing this record-breaking distribution and talking about the diversification and the work that went in to get us there and also the impact this will have on our public schools, particularly folks in technology for our public school libraries. That announcement will be on November 17th at 11 am. In addition to the commissioners and Dr. Jill Underly the head of WEMTA, Tina Birkett will be speaking and we expect public school teachers and leaders to also be present at the announcement.

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 3-0; the meeting adjourned at 2:26 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2022/2022-11-01 BoardMtgRecording.mp3>

**BOARD MEETING
NOVEMBER 15, 2022**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Seymour Outagamie County Application #: 02023033 Purpose: Finance wastewater plant upgrades	City Rate: 5.25% Term: 10 years	General Obligation	\$875,000.00
2. Stevens Point Portage County Application #: 02023034 Purpose: Finance TID 11 development incentives	City Rate: 4.75% Term: 20 years	General Obligation	\$3,350,000.00
3. Wauwatosa Milwaukee County Application #: 02023035 Purpose: Finance Building and Transportation Projects	City Rate: 5.50% Term: 2 years	General Obligation	\$935,000.00
4. Northfield Jackson County Application #: 02023036 Purpose: Finance roadwork	Town Rate: 5.25% Term: 10 years	General Obligation	\$1,000,000.00
	TOTAL		<hr/> \$6,160,000.00