

Board Meeting Minutes  
November 7, 2023

Present were:

Sarah Godlewski, Board Chair	Secretary of State
John Leiber, Commissioner	State Treasurer
Tom German, Executive Secretary	Board of Commissioners of Public Lands
Rich Sneider, Chief Investment Officer	Board of Commissioners of Public Lands
Denise Nechvatal, Controller	Board of Commissioners of Public Lands
Chuck Failing, IT Manager	Board of Commissioners of Public Lands
Mike Krueger, IT Specialist	Board of Commissioners of Public Lands
Hannah Menchhoff, Communications Director	Secretary of State

### ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 2:06 p.m.

### ITEM 2. APPROVE MINUTES

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

**DISCUSSION:** Mr. Sneider shared that today we have truck loans and roadwork loans with the exception of loan #7 to the Town of Bristol. The Town of Bristol had a few budget items that went over projected expense levels, so they needed to fill that gap and are borrowing a small amount for a short period of time to fill that gap for operations. Current interest rates are 6.25%.

**VOTE:** The motion passed 2-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$3,786,196.04** in State Trust Fund Loans to support **8** community projects in Wisconsin.

1. Town of Tomah / Monroe County / Finance purchase of plow truck / \$140,000.00
2. Village of Suring / Oconto County / Finance roadwork / \$500,000.00
3. Town of Draper / Sawyer County / Finance purchase of dump truck / \$500,000.00
4. Town of Cedarburg / Ozaukee County / Finance roadwork, bridge work and capital equipment / \$650,000.00
5. Town of Neenah / Winnebago County / Finance purchase of fire truck / \$804,696.04
6. City of Wauwatosa / Milwaukee County / Finance roadwork / \$935,000.00
7. Town of Bristol / Dane County / Finance operations / \$80,000.00
8. Town of Lebanon / Dodge County / Finance purchase of wheel loader / \$176,500.00

#### **ITEM 4. OLD BUSINESS**

None

#### **ITEM 5. NEW BUSINESS**

None

#### **ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT – Quarterly Investment Report**

Mr. Sneider shared that today's board packet includes two quarterly reports for the Common School Fund and a supplemental graph of annual distributions.

He reported that the financial markets did not have a great third quarter. On page five, you can see how rising interest rates over the last three years have had a huge impact on the value of our interest rate sensitive assets, hitting especially hard on the market value of our corporate bond and preferred stock ETFs. Overall, our funds continue to outperform the benchmarks. Our Common School Fund principal value declined by less than 1% during the quarter.

When looking at how the overall market performed, we did all right. The decline in asset prices failed to have a negative impact on our distributions to beneficiaries. For example, our bond and preferred stock portfolios continue to yield well above 5% and deliver over \$12 million in distributable income regardless of current price levels.

The investment policy and the diversification plan approved by the board and implemented by the investment committee over the last several years are hitting its stride. We have delivered higher amounts of income every year since 2017, including record amounts each year since 2020. Earlier this year in fiscal 2023, we delivered \$52,000,000 in library aid which was a 28% increase over the previous year. The Common School Fund distribution in fiscal 2024 will take another huge jump to a total of \$65 million. This distribution more than doubles the amount that schools have available for library, media and technology in just the last seven years.

While the growth rate is bound to level off, he's extremely confident that we will increase the amount of our annual distribution well into the foreseeable future. This confidence is grounded by the fact that our Smoothing Fund has also reached a record amount totaling more than \$37 million. This \$37 million is significantly higher than the minimum amount required under the investment policy, which is a very good thing. Future distributions are in excellent shape.

Last November was the first time Mr. Sneider reported that the projected income over the next 12 months would total more than \$60 million. Our current portfolio is now expected to produce distributable earnings over the next 12 months of over \$68 million and we continue to make progress in diversifying the sources of this income.

The State Trust Fund Loan Program has had two of the busiest quarters in the last 10 years. We have made significant commitments to a new asset class, infrastructure, that features a return profile with little to no correlation with our other investments and we continue to invest in private debt. Next week, the investment committee will consider new commitments to further diversify that portfolio following the approval of third party due diligence reports.

Our development of income streams from several different asset classes has helped both grow and stabilize future distributable income from unpredictable markets.

Commissioner Leiber inquired about corporate bonds being down. Are we holding those bonds till they mature?

Mr. Sneider explained that unless there is a default, those bonds will pay the full amount of face value at maturity. A lot depends on where we think interest rates are going to head, and if we need to raise some liquidity. If we do need to raise cash, selling those bonds would be one possibility that we would look at. If we did sell some of those corporate bonds now, we would be booking a loss. Generally, unless there is a default, bonds will pay the full amount upon maturity.

There is not much new to say about the information provided in the allocation report. As we close in on our target allocations, it is clear we've made great progress over the past several years. As of today, we are invested in a total of 23 private investment funds. These include 8 real estate funds, 7 venture capital funds, 5 private debt funds with an additional 2 perhaps on the horizon, 2 infrastructure funds, and one convertible note which is invested in an exciting med-tech startup.

These types of funds are the right place for the Common School Fund because of the higher expected risk adjusted rate of return and lower volatility. For trust funds like ours, the benefits of investing in private funds more than offset the benefits of greater liquidity offered through the public market. We are much more interested in a stable distribution to our beneficiaries than maintaining an ability to immediately sell all assets upon short term market fluctuations. We benefit greatly from having a very long investment time horizon with record distributions expected well into the foreseeable future.

Board Chair Godlewski shared that a handful of the venture capital funds are Wisconsin based startups. The investment committee has been very cognizant about looking at these type of fund opportunities. She asked Mr. Sneider about the percentage increase of the library aid disbursement for this year compared to last year.

Mr. Sneider replied that it is a 25% increase.

Commissioner Leiber commented that the change in the investment policy made back in 2015 made it possible to make investments that had much more potential.

Mr. Sneider explained that it took over a year to develop the investment policy and start moving in that direction. We moved very prudently into these new asset classes because at the time, asset prices seemed relatively high to us. We moved very slowly and prudently into the new asset classes so the fund would benefit over the long term. We are almost fully invested in the asset allocation plan and it's really working well.

Executive Secretary German shared that the other thing that was not discussed is that when we got that expanded investment authority, BCPL did not receive any additional resources to manage the funds in that way. It takes a lot more money and work to diversify the portfolio the way that we have. Each one of those third-party due diligence reports is \$15,000. Every time we do that, we engage outside counsel at an additional cost. Not only did we move carefully and prudently in terms of which funds we were selecting, we also had to spread out those expenses because we couldn't pack them into one fiscal year. Everything has worked very well. Thank you for your patience with us. The numbers speak for themselves at this point.

## **ITEM 7. EXECUTIVE SECRETARY'S REPORT**

Executive Secretary German reported that today the board approved eight loans to eight different communities and those communities are located in eight different counties. The State Trust Fund Loan Program continues to reach a diverse number of communities. He and Mr. Sneider recently participated in small community rural forums in different parts of the state. Mr. Sneider traveled north to Gilman to participate, and Executive Secretary German traveled to Norwalk, WI. It was a great opportunity to spread the word about the work of BCPL and the State Trust Fund Loan Program in some smaller communities. He also had a chance to talk to Jerry Deshane from the League of Wisconsin Municipalities while he was on the road.

Last week, BCPL closed on the purchase of 330 plus acres of School Trust Lands in Forest County. This purchase was authorized by the board earlier this fall. The purchase price was \$638,000. The land we are acquiring is contiguous to existing School Trust Lands and the newly acquired lands contain mature timber. We are moving forward with a timber sale that will cover some of our previously owned property and some of the newly acquired land. We will also be making payments in lieu of taxes on these new properties. It's a win, win, win situation.

Finally, the state's annual United Way Combined Giving campaign is wrapping up. BCPL had great participation from all staff. He is grateful to work with people who have a commitment to giving back to their communities not only in their public service work for public education financing, but also with their personal pocketbooks to the charities of their choice. Thank you, to all of our staff.

## **ITEM 8. BOARD CHAIR'S REPORT**

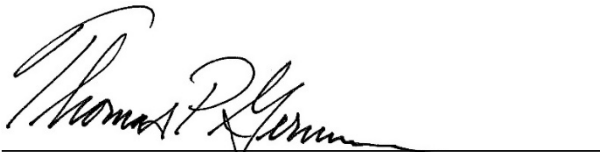
Board Chair Godlewski reported that she and staff have been working to find a date, time, and location for the Common School Fund distribution announcement. We have moved up our press conference, which we used to do in February. An announcement will be made with all of our friends at the WI Educational Media & Technology Association (WEMTA). WEMTA is the Wisconsin organization for library school librarians, technology specialists and media specialists. We received feedback that it's better when our beneficiaries have more time to plan, making sure they're truly optimizing the resources being provided. One factor in scheduling the press conference was the availability of the Assembly parlor or the Senate parlor. We have locked in the date of November 20<sup>th</sup> at 11:00 a.m. in the Assembly parlor. Her team will follow up with the commissioners. Right now, she and her staff are in the process of building the agenda. Typically, the President of the school librarians, the Superintendent of the Dept. of Public Instruction, other stakeholders and others involved in education will attend.

## **ITEM 11. FUTURE AGENDA ITEMS**

None.

## **ITEM 12. ADJOURN**

Board Chair Godlewski moved to adjourn the meeting; Commissioner Leiber seconded the motion. The motion passed 2-0; the meeting adjourned at 2:30 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/bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2023/2023-11-07/BoardMtgRecording.mp3](https://bcpl.wisconsin.gov/bcpl.wisconsin.gov/Shared%20Documents/Board%20Meeting%20Docs/2023/2023-11-07/BoardMtgRecording.mp3)