

Board Meeting Minutes
September 17, 2025

Present were:

Sarah Godlewski, Board Chair
John Leiber, Commissioner
Josh Kaul, Commissioner
Nicole Pegram, Deputy Chief of Staff
Tom German, Executive Secretary
Rich Sneider, Chief Investment Officer
Denise Nechvatal, Controller
Chuck Failing, IT Manager
Thuy Nguyen, Office Manager

Secretary of State
State Treasurer
Attorney General
Secretary of State
Board of Commissioners of Public Lands
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ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 2:30 p.m.

ITEM 2. APPROVE MINUTES

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

DISCUSSION: None

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

MOTION: Commissioner Leiber moved to approve the loans; Commissioner Kaul seconded the motion.

DISCUSSION: Mr. Sneider shared that the first loan is to the Town of Lincoln in Vilas County. The town is a member of a fire district and this loan is to finance their portion of the fire district's total cost for a ladder truck. The second loan is to the County of Florence to finance construction of some EMS buildings.

Executive Secretary German shared that although we have not had many loans lately, we reduced interest rates recently and are now working with some communities that decided to start over to take advantage of the lower interest rates. This will likely result in more loans in the near future.

VOTE: The motion to approve the loans passed 3-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$4,608,000.00** in State Trust Fund Loans to support **2** community projects in Wisconsin.

1. Town of Siren / Vilas County / Finance Fire Department Ladder Truck / \$108,000.00
2. Florence County / Florence County / Finance EMS building construction / \$4,500,000.00

ITEM 4. Milwaukee County Fines and Forfeitures

MOTION: Commissioner Leiber made the motion under Section 19.85(1)(g) to transition into closed session, Board Chair Godlewski second the motion. Commissioner Kaul abstained.

VOTE: The motion to transition to closed session passed 2-0.

ITEM 5. Closed Session pursuant to Wis. Stats. §19.85(1)(g)

Closed session 2:35 pm – 3:11 pm

ITEM 6. Reconvene to Open Session

Open Session reconvenes at 3:11 pm

ITEM 7. Action regarding Milwaukee County Fines and Forfeitures

Board Chair Godlewski reconvened open session. In preparation for the upcoming legislative session that starts in early October, the board will have a special meeting on the 30th of September, Tuesday, at 2:00.

Commissioner Lieber had no objection and agreed to having the meeting.

Commissioner Kaul stated he will abstain. For public record, he stated that he will recuse himself from the special meeting and from any future closed session meetings on this topic.

A special meeting will be held on Tuesday, September 30th at 2:00 pm.

ITEM 8. NEW BUSINESS

None

ITEM 8. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider provided the quarterly investment report. He sent via email an updated portfolio report and allocation report. Due to a minor sorting error, the spreadsheet did not pick up all the information he intended.

He reported that overall, it was a good quarter and our portfolio continues to perform well. For the fiscal year ending June 30th (FY25), the Common School Fund earned a record \$71,000,000, which is \$3,000,000 more than FY24. We distributed a record \$70 million. The difference between earnings and the distribution amount is held in the Common School Fund smoothing account, which has grown to a record \$43,000,000.

The targeted distribution each year is calculated by the average earnings of the prior five years. This way beneficiaries will not be greatly impacted by annual swings in the financial markets. The smoothing fund is another protective mechanism for our beneficiaries. Earnings that are deferred from distribution in a fiscal year will be distributed in a subsequent fiscal year. The existence of these smoothing accounts helps provide funding certainty and stability during uncertain times. The investment policy defines the minimum smoothing fund to be 50% of the next year's targeted distribution.

Actual earnings of the Common School Fund have grown significantly in recent years. FY25 earnings were \$71,000,000 While only 4 years ago, FY21 earnings were less than \$44 million. The targeted distribution is now set at \$58.2 million (the average of the last 5 years of earnings, which includes some years prior to the full implementation of our investment strategy). As time moves on, the earlier, lower earning years will be systematically dropped from the five-year average and replaced with newer higher earning years.

Over the next year, we project the Common School Fund will earn much more than the \$58,000,000 targeted distribution. The smoothing fund balance is currently \$43,000,000, about \$14,000,000 over the minimum. However, as the prior years drop off, the targeted distribution calculation using the five-year average will rise, and the targeted minimum smoothing fund balance will rise as well. In a few years, we expect the targeted smoothing fund balance to be equal to the smoothing fund balance.

The board approved new asset allocations in June and considered projections of the earnings distributions and smoothing fund balances over the next 10 years. The conclusion of the Investment Committee was a prudent and multi-year transition where a small portion of the Common School Fund would be reinvested into higher growth assets.

In the future, the board might reconsider whether the smoothing fund balance needs to be 50% of the targeted distribution. This 50% figure was seen as reasonable before we began diversifying from our prior investment authority, which consisted of 100% fixed income. Income generated by a diverse asset pool is less volatile than a portfolio consisting of 100% fixed income, while income generated by fixed income assets is impacted greatly by changing market interest rates. We have 10 separate asset categories contributing over \$1 million to our distributable income. Six of these categories contribute more than \$5,000,000 each year. The smoothing fund is meant to smooth out the distributions to beneficiaries. The volatility of income has been reduced by our investment strategy, so it may mean the smoothing fund no longer needs to be so large. We will wait a few years for additional data to confirm this theory before making any changes to our investment policy.

The Investment Committee has begun to implement changes to asset allocation as approved by the board in June. These changes include \$50 million in additional commitments to the private debt and infrastructure space. BCPL began committing to venture capital in 2018 and we have needed to remain very patient. Both the nature of this type of investment and market conditions over the past few years have contributed to delays in any good news from this portfolio by several years but now we are starting to see some results.

There has been an exciting development regarding a healthcare finance company within one of our funds. Healthbridge is a Michigan company that is developing software integrated directly into healthcare systems and their electronic health record systems, similar to Epic. Healthbridge pays the healthcare system a discounted amount for balances due from patients following payments from the patient's insurance company and collects from that consumer over time. Patients, whether they have insurance or not, can pay for their medical expenses over time with no interest. This option gives patients the confidence to seek medical care when necessary. There are no credit checks, applications, or hidden fees involved. Patients will not need to navigate to an outside company account or use a separate patient app. The company recently raised additional equity to fund operations and expanded their debt facility to support their rollout with their first major customer, Trinity Health Systems.

Trinity Health is one of the largest not-for-profit Catholic healthcare systems in the nation. It is a network consisting of 93 hospitals, 107 continuing care facilities, 142 urgent care locations, 127,000 employees, and 5,300 physicians across 26 states. Once the Healthbridge rollout is complete, it is projected that Trinity Systems' account alone will generate several hundred million dollars in annual revenue to Healthbridge. The Healthbridge roll out within Trinity is in the early stages, but reports are that implementation and acceptance is beyond all expectations. The current valuation is now at nine times the amount of our initial investment.

BCPL has now participated in our first unicorn, namely Histosonics. Histosonics is a medical device company headquartered in the Twin Cities. They developed the Edison system, which is a stand-alone device that uses

focused sound waves to destroy tumors in a noninvasive outpatient procedure. They received FDA clearance for liver tumors and have ongoing studies for kidney and pancreatic cancers. Results have been exceptional. Madison-based Venture Investors has been a major supporter of Histosonics since inception. Until recently, Venture Investors' managing partner, Jim Addox, was the Histosonics board chair. About a month ago, Histosonics announced the sale of the company in a transaction valued at over \$2.2 billion

BCPL's initial commitment to Venture Investors Health Fund 6 was over seven years ago. That was our second commitment to the venture capital asset class. The Investment Committee continued to invest in this company through two additional commitments, bringing our ownership position up to about 1.5% of the company. With the recent sale, our total (indirect and direct) investment of \$5.7 million has now returned approximately \$21.4 million in cash. The Investment Committee still believes that Histosonics has the potential to impact the future delivery and outcome of cancer treatment throughout the world. We are retaining a position valued at \$8 million in the recapitalized company, including the retained stock. Our investment return from the sale totals \$29.4 million and is over five times our original investment. Venture Investors will keep a board seat on the new company, and the general partner expects the value of Histosonics to increase at approximately 40% per annum. Revenues are projected to exceed \$1 billion by 2029, when another sale of the company is anticipated.

Board Chair Godlewski added that these funds are here in Wisconsin. Often, we are supporting Midwest businesses or Wisconsin-based funds.

Mr. Sneider continued sharing that the projected annual income for the Common School Fund is over \$73.5 during the next 12 months. That's 5% higher than the amount we distributed earlier this year. The odds are very good that we will reach that target.

If interest rates start to go down, yields within our corporate bond ETFs and State Trust Fund Loans may be reduced. That impact would take some time. Our state, muni, and U.S. bond portfolios are all fixed rate to maturity. The investment Committee has made additional commitments to private debt, which averages an impressive 10% yield in our portfolio. Private debt investments are all variable rate and the yields will decline with market rates. The yields on this asset class will always be higher than our portfolio average and continue to benefit our distributions. The third impact from lower rates might be an increase in the value of our fixed income portfolios. Should rates come down over the next few years, these losses on these investments will certainly be trimmed. Another impact of lower future market rates might be the need to reinvest callable bonds. As market rates decrease below the current stated rate, issuers of callable bonds have the opportunity to refinance their outstanding balances. In addition to State Trust Fund Loans, all \$200 million invested in state, muni, and U.S. agency bonds are callable. We invest in callable issues because they offer higher interest rates than similar bonds that are not callable and we have benefited from those higher rates with improved distributable income over the past many years. If rates fall far and fast, our strategy investing in un-callable debt will create the need to reinvest a large share of the Common School Fund portfolio and could accelerate our reallocation strategy.

Commissioner Leiber asked how much rates would have to fall for it to be an issue for us.

Mr. Sneider replied that it really depends. If rates fell another half a percent, we would probably start seeing some of our agency bonds being called. If rates continue to fall, borrowers can refinance their State Trust Fund Loans without penalty. Some of those borrowers may attempt to refinance that debt too. If rates fall another half to one percent, we will see some activity in that regard.

Executive Secretary German shared that the Federal Reserve has a direct impact on short-term rates but generally has an indirect impact on long-term rates. What we've seen happen recently is a steepening of the yield curve. The short end of the curve (e.g., bonds that are maturing in six months, a year, up to two years), those yields are dropping. The long-term rates are going down, but not as fast. How far the rates would have to fall for it to be an issue depends on the bond. A long-term bond, if rates are still pretty high and the short-term is dropping, is up to the issuer to decide. They may want to change how they issue debt. For example, we have a significant amount of

farm credit bonds in our portfolio. These bonds are callable and it will be up to the Farm Credit managers to determine when they want to refinance those bonds.

Commissioner Leiber shared that it sounds like at half a percent it starts to impact us and then it just builds from there.

Mr. Sneider replied that he think that is correct. Sometimes that action - because it is based on overnight bank loans - might have the opposite effect on long-term rates because if the market believes the Fed reducing short-term rates is going to increase economic activity and inflation expectations go up, long-term rates are going to go up rather than down. That is the steepening of the yield curve, as Secretary German explained.

As far as the allocation report, the Investment committee is working hard to increase commitments to asset classes remaining below target. Our cash available for investment remains strong with recent projections remaining above \$75 million over the next year.

During the second quarter of every year, there is a report on our progress versus inflation. Included is the analysis of both principal and annual distributions from the Common School Fund. Of particular interest is the annual increase in distributions when compared to the increase in assets over the past 3-year and 10-year periods. Distributions have grown much faster than assets have as we implemented the prudent investor standard. One thing to note is the recent increase in the price of educational books and supplies. There no explanation for this recent bump, but since Common School Fund distributions are used for public school libraries and media, we should keep an eye on this data moving forward.

ITEM 9. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German reported that he and Mr. Sneider will be in Milwaukee for the League of Municipalities conference for the next couple days. We have an exhibit hall booth that gives us a chance to talk to a lot of officials from cities and villages about our loan program.

Northern staff have been working further at trying to figure out a way to utilize carbon credits on our lands. Several years ago we had looked at carbon credits and we stepped away from it for two reasons: 1) the entity that was making the proposal wanted us to keep how much we would get paid, how much they would get paid and how the process worked confidential; and 2) when it was pointed out the attorney general was on our board and he was responsible for enforcing the open records law, this didn't make any sense for us to proceed. Things have changed and other public entities have entered the carbon credits world, so this may be a possibility for us.

ITEM 10. BOARD CHAIR'S REPORT

Board Chair Godlewski spoke about Executive Secretary German's retirement by January 2nd. We have big shoes to fill. She is meeting with HR next week to outline a process and would like to share that with the board at the October 7th meeting. Discussion will be had about when to post the job opening and when to start doing interviews. She looks forward to sharing that timeline and getting feedback from the board as we know the next three months will go by quickly. We have to start working on this sooner rather than later. She is dreading this at the same time as knowing it's something we've got to all do.

ITEM 11. FUTURE AGENDA ITEMS

Milwaukee County Fines and Forfeitures to be added as Old Business

ITEM 11. ADJOURN

Board Chair Godlewski moved to adjourn the meeting; Commissioner Leiber seconded the motion. The motion passed 3-0; the meeting adjourned at 3:36 p.m.

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

Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2025/2025-09-17 BoardMtgRecording.mp3>